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**Opening up Africa to the world**

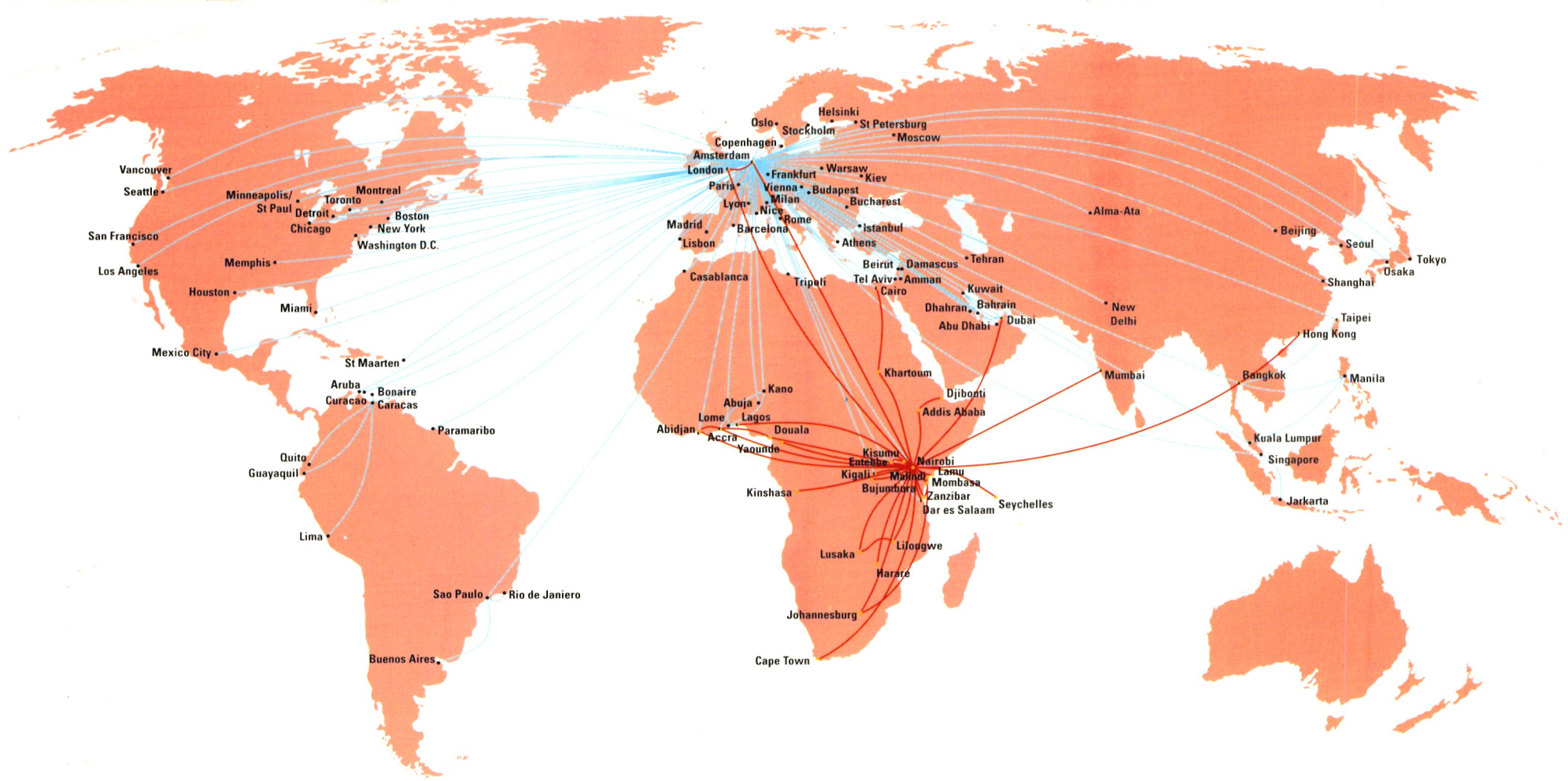
**Annual Financial Report & Accounts**

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**2004**

657-3  
KAI

**K** Kenya Airways  
*The Pride of Africa*



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## Group Results

### Turnover (KShs Millions)

Up 10.8%

2003-2004

30,421

2002-2003

27,461

### Profit Before Tax (KShs Millions)

Up 174.5%

2003-2004

2,075

2002-2003

756

### Capital & Reserves (KShs Millions)

Up 14.6%

2003-2004

8,420

2002-2003

7,349

### Operating Profit (KShs Millions)

Up 168.8%

2003-2004

2,736

2002-2003

1,018

### Net Profit (KShs Millions)

Up 225.5%

2003-2004

1,302

2002-2003

400

### Earning Per Share (KShs Millions)

Up 225.5%

2003-2004

2.82

2002-2003

0.87

## Key Financial Statistics

### Debt/Equity Ratio (%)

Up 46.4%

2003-2004

107.0

2002-2003

73.1

### Operating Margins (%)

Up 142.6%

2003-2004

9.0

2002-2003

3.7

## Operating Statistics

### Passengers Carried

Up 4.9%

2003-2004

1,701,170

2002-2003

1,621,429

### Revenue Passengers KM (Millions)

Up 9.3%

2003-2004

4,366

2002-2003

3,994

### Available Seats KM (Millions)

Up 5.9%

2003-2004

6,221

2002-2003

5,872

### Cabin Factor (%)

Up 2.2%

2003-2004

70.2

2002-2003

68.0

### Cargo (Tons)

Up 12.8%

2003-2004

32,147

2002-2003

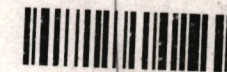
28,497

Highlights  
of the Year  
and operating  
statistics

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OF KENYA  
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KENYA NATIONAL ASSEMBLY  
Accession: 10013419

Call No: 657-3 KAI



[ Lagos ]



[ Kinshasa ]



[ Malindi ]



NOTICE IS HEREBY GIVEN that the 28th Annual General Meeting of the Company will be held at Carnivore Gardens, off Langata Road, Nairobi on Friday 26 November 2004 at 11.00 am to conduct the following business:

- 1 To table the proxies and note the presence of a quorum.
- 2 To read the notice convening the meeting.
- 3 To consider and, if approved, adopt the Balance Sheet and Accounts for the year ended 31 March 2004 together with the Directors' and Auditors' Reports thereon.
- 4 To declare a final dividend of KShs 0.75 per share for the financial year ended 31 March 2004, payable to shareholders registered on the Register of Members at close of business on 30 July 2004.
- 5 To elect Directors:
  - a) Michael Lewis Somen retires by rotation in accordance with Article 84 of the Company's Articles of Association and, being eligible, offers himself for re-election.
  - b) Dinesh Kapila retires by rotation in accordance with Article 84 of the Company's Articles of Association and, being eligible, offers himself for re-election.
  - c) Joseph Kinyua, who was appointed an additional Director of the Company on 29 July 2004, retires in accordance with Article 90 of the Company's Articles of Association and, being eligible, offers himself for re-election.
- 6 To approve the Directors remuneration.
- 7 To authorise the Directors to fix the remuneration of the Auditors, Deloitte.

BY ORDER OF THE BOARD

Fiona C Fox

For CHUNGA ASSOCIATES

SECRETARIES

P O BOX 41968 NAIROBI

Date: 29 July 2004

#### Notes:

1. Any member may by notice duly signed by him or her and delivered to the Secretary, Chunga Associates, 7th floor, The Rahimtulla Tower, Upper Hill Road, PO Box 41968, GPO 00100, Nairobi, not less than 7 and not more than 21 days before the date appointed for the Annual General Meeting, give notice of his intention to propose any other person for election to the Board, such notice is to be accompanied by a notice signed by the person proposed of his or her willingness to be elected. The proposed person need not be a member of the company.
2. A member entitled to attend and vote at the meeting and who is unable to attend is entitled to appoint a proxy to attend and vote on his or her behalf. A proxy need not be a member of the Company. To be valid, a form of proxy which is attached to this notice, must be duly completed and signed by the member and must either be lodged at the offices of the company's share registrars, Barclays Advisory & Registrar Services, Bank House, Moi Avenue, PO Box 30120, GPO 00100, Nairobi or be posted, so as to reach Barclays Advisory & Registrar Services not later than Thursday 25 November 2004 at 11.00 am.

ILANI INATOLEWA HAPA YA KWAMBA mkutano mkuu wa kila mwaka utafanyika katika mkahawa wa Carnivore, barabara ya Lang'ata, Nairobi mnamo siku ya Ijumaa tarehe 26th Novemba mwaka 2004 kuanzia saa tano kamili asubuhi kuendesha shughuli zifuatazo:

1. Kuorodhesha majina ya wawakilishi wenyehisa na kutambua idadi ya waliohudhuria mkutano.
2. Kusoma ilani ya kuitisha mkutano.
3. Kupokea kuthibitisha na, ikithibitishwa, kukubali taarifa za fedha za mwaka uliomalizika tarehe 31 Machi 2004 pamoja na Taarifa za Wakurugenzi na Wakaguzi wa Hesabu.
4. Kutangaza mgawo wa faida wa mwisho wa Ksh 0.75 kwa hisa kwa mwaka wa fedha uliomalizika tarehe 31 Machi 2004, kulipwa wenyehisa waliosajiliwa hadi kufikia kufungwa kwa shughuli za kazi tarehe 30 Julai mwaka 2004.
5. Kuchagua Wakurugenzi:
  - a) Bw. Michael Lewis Somen anastaafu kwa zamu kulingana na Kifungu cha 84 cha Sheria za Makampuni, anajitolea kuchaguliwa tena kuwa Mkurugenzi.
  - b) Bw. Dinesh Kapila anastaafu kwa zamu kulingana na Kifungu 84 cha Sheria za Makampuni, na anajitolea kuchaguliwa tena kuwa Mkurugenzi.
  - c) Bw Joseph Kinyua, ambaye aliteuliwa kuwa Mkurugenzi wa ziada mnamo tarehe 29 Julai mwaka 2004, anastaafu kulingana na Kifungu 90 cha Sheria za Makampuni, na anajitolea kuchaguliwa tena kuwa Mkurugenzi.
6. Kuidhinisha malipo ya Wakurugenzi.
7. Kuwapa ruhusa Wakurugenzi kuamua malipo ya Wakaguzi wa vitabu ya hesabu, Deloitte.

KWA AMRI YA HALMASHAURI

Fiona C Fox

Kwa niaba ya CHUNGA ASSOCIATES

Katibu

P O Box 41968 NAIROBI.

Tarehe: 29 Julai 2004

#### Ilani:

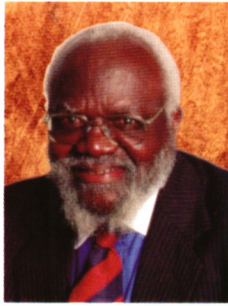
1. Mwenyehisa yeyote anaweza kumpendekeza Mkurugenzi amtakaye kuchaguliwa katika Halmashauri ya Wakurugenzi wa shirika, kwa ilani yenye sahihi yake, kufikishwa kwa Katibu, Chunga Associates, gorofa ya 7, Jumba la Rahimtulla Tower, barabara ya Upper Hill, P O Box 41968, GPO 00100, Nairobi, katika muda usiopungua siku saba na usiozidi siku 21 kabla ya siku ya mkutano mkuu, ilani hiyo lazima iambatane na nyengine yenye sahihi ya mtu aliyependekezwa kuthibitisha amekubali kuchaguliwa. Anayependekezwa si lazima awe mwanachama wa shirika.
2. Mwenyehisa anayeruhusiwa kisheria kuhudhuria mkutano mkuu wa kila mwaka na kupiga kura lakini hana nafasi ya kufika ana haki kisheria kumchagua mtu atakayehudhuria mkutano na kumpigia kura kwa niaba yake. Mwakilishi huyo si lazima awe na hisa kwenye shirika. Ili kukubaliwa, fomu ya mwakilishi huyo iliyoshikanihwa na tangazo hili, lazima ijazwe na kuwekwa sahihi na Mwenyehisa na ipeleke kwa Msajili wa Hisa za Shirika, Barclays Advisory & Registrar Services, Jumba la Bank House, barabara ya Moi Avenue, P O Box 30120, GPO 00100, Nairobi au kupitia njia ya posta ili ifike Barclays Advisory & Registrar Services kabla ya saa tano asubuhi siku ya Alhamisi tarehe 25 Novemba mwaka 2004.

## Notice to the Annual General Meeting 2004

### Ilani ya Mkutano Mkuu 2004



## Board of Directors



Mr. Isaac E. Omolo Okero



Mr. Titus Naikuni



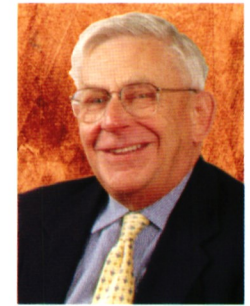
Mr. Chris Smyth



Mr. Robert Ruijter



Mr. Henry Essenberg



Mr. Michael Somen

### Mr. Isaac E. Omolo Okero | **Chairman**

Mr. Omolo Okero aged 75, attended Makerere University and attained a BA degree and thereafter, an LLB degree from Bombay University. He is a barrister of the Middle Temple and an Advocate of the High Court of Kenya. He worked in the Civil Service between 1962 and 1969 rising to the position of Deputy Public Prosecutor and Commissioner of Customs. He had a successful political career between 1969-1979 as a Member of Parliament for Gem Constituency. He served on the cabinet as Minister for Transport Power & Communications, of Health & of Information & Broadcasting. He is Chairman of the Kenya Association of Air Operators. He joined the Kenya Airways Board in April, 1991.

### Mr. Titus T. Naikuni | **Managing Director**

Mr. Titus Naikuni aged 50 years, holds a Bachelor of science Honours Degree in Mechanical Engineering (University of Nairobi). He is a graduate of Harvard Business School Management Development Programme. He joined the Magadi Soda Company in 1979 as a trainee engineer and rose to the position of Managing Director of the Company in 1995 as well as Managing Director of Magadi Railway Company in 1996. Between August 1999 and March 2001 Mr. Naikuni was a member of a team of World Bank sponsored Kenyan technocrats who were engaged by the Government to turn around the economy. Mr. Naikuni has had extensive boardroom experience having served on various company boards including Brunner Mond (South Africa), as well as Chairman Kenya Power & Lighting Company and Chairman Housing Finance Company Limited. He received the Manager of the Year Award in Kenya in 2002.

### Mr. F. Chris Smyth | **Group Finance Director**

Mr. Smyth aged 47 years, holds a Bachelor of Commerce degree from the University of Natal in Durban and is a registered Chartered Accountant in South Africa. He joined Kenya Airways in December 2001 from Radiospoor Telecom, a company that operates in the cellular telephone industry in Johannesburg where

he was the Finance Executive. Mr. Smyth has had a wide experience in a variety of finance roles in several industries, including aviation, telecommunications, steel manufacturing and hospitality. He has a special interest in aviation and holds a commercial pilots licence.

### Mr. Robert A. Ruijter | **Non-Executive Director**

Mr. Ruijter aged 53 years, is a Chartered accountant and a member of the association of Corporate Treasurers (MCT) of the UK. He has also worked with Philips Electronics as Group Director of Finance. He joined KLM in March 2001 as Chief Finance Officer and Managing Director. He joined the Kenya Airways Board on 31st May 2001.

### Mr. Henry Essenberg | **Non-Executive Director**

Mr. Essenberg aged 59 years, joined KLM in 1970 after completing his studies in Economics at the University of Rotterdam. From 1990 till 1995 he was Vice President Cargo Services in KLM's Cargo Division. He was Managing Director Air UK from 1995 till 1998 (based in the UK). In 1999 he returned to KLM as Executive Vice President Passenger Business. His responsibilities covered KLM's Alliance activities until his retirement during 2004.

### Mr. Michael L. Somen | **Non-Executive Director**

Mr. Somen aged 67 years, is a Barrister-at-Law, Grays Inn, England, MA(Honors), Brasenose College, Oxford and an Advocate of the High Court of Kenya. He is a Director of several other Companies including the Nairobi Stock Exchange Limited, the Nairobi Hospital, Marshalls (East Africa) Limited and Safari Rally Limited. He joined the Kenya Airways Board in April 1991.

### Mr. Dinesh Kapila | **Non-Executive Director**

Mr. Kapila aged 58 years, is an advocate of the High Court of Kenya, Barrister-at-Law, Lincoln's Inn, England, and partner in DV Kapila and Co. Advocates, a Nairobi





Mr. Dinesh Kapila



Mr. Micah Cheserem



Dr. Chris Obura



Dr. Gerrishon Ikiara



Mr. Remco Smit



Mr. Joseph Kinyua

law firm. He joined the Kenya Airways Board in April 1991.

**Mr. Micah Cheserem | Non-Executive Director**

Mr. Cheserem aged 56 years, is an accountant by profession, having qualified as a fellow of the Association of Certified Accountants of London in 1974. Mr Cheserem has held a number of posts in various private sector companies including British American Tobacco, Lonrho and finally Unilever. He joined Unilever initially in 1977 and again in 1991 and worked for them in Australia and Malawi before returning to rise to chairman of their Kenyan operation, a post he held until July 2003. He is currently chairman of Equator Flowers Ltd, a company of which he is a shareholder. He also excelled in the public sector where he was governor of the Central Bank of Kenya for 8 years. During his tenure he was largely responsible for the implementation of major economic reforms including the abolition of exchange controls. Mr. Cheserem was elected to the board of Kenya Airways on 21st November 2003.

**Dr. Chris W. Obura | Non-Executive Director**

Dr. Obura aged 68 years, holds graduate and postgraduate qualifications in Dentistry from the University of London and the Royal College of Surgeons. He served in the Government as Chief Dental Officer, Ministry of Health, and was a Senior Lecturer and External Examiner in the University of Nairobi. Dr. Obura has extensive business interests, and is a Director of several Companies in banking, insurance, transportation and pharmaceuticals including African Mercantile Banking Company, Ashbu Securities, Rhone Poulenc, Lion of Kenya Limited, Mitchell Cotts, Howse and McGeorge, etc. Dr. Obura joined the Board of Kenya Airways in January 1997.

**Dr. Gerrishon Ikiara | Non-Executive Director**

Dr Ikiara aged 56 years, is the permanent secretary to the ministry of Transport and Communication. He holds a MA and BA degree in Economics from the University of Nairobi and has lectured economics at that university since 1977. He has published extensively on the Kenyan economy and served as consultant to many organizations both local and international.

**Mr. Remco Smit | Alternate Non-Executive Director**

Mr. Smit aged 37 years, joined KLM in 1990 after completing his studies in business economics at the Erasmus University of Rotterdam. Later he obtained the degree of chartered management accountant at the Vrije Universiteit Amsterdam. He served in various financial positions for KLM in the Netherlands, Singapore and London. Currently he is the Holding Manager for KLM and responsible for the monitoring of KLM's corporate holdings. As a result of this he is a board member and director of various companies within the KLM Group and has served in the board of Braathens S.A.F.E. prior to KLM divesting its shareholding. He was appointed an alternate of Robert Ruijter in the board of Kenya Airways since 21 June 2002 and is KLM's representative in the finance and audit committee.

**Mr. Joseph Kanja Kinyua | Alternate Non-Executive Director**

Mr. Kinyua aged 53 years, is the Permanent Secretary, Ministry of Finance. He is a career economist having served in various capacities in the Treasury and Central Bank. He has also been involved in several projects with the International Monetary Fund both within Kenya and abroad. He holds MA and BA degrees in Economics (UoN).



[ Nairobi ]



[ Hong Kong ]



[ Addis Ababa ]



I am delighted to report that during the financial year ended 31st March 2004, Kenya Airways recorded yet another year of excellent performance despite the highly volatile aviation market. Indeed, this performance was achieved against an extremely challenging environment created by stunningly high fuel prices and several negative external events including SARS, the US-led invasion of Iraq and the continued negative travel advisories on East Africa issued by the West to its citizens.

## Industry Overview

The world airline community has to a large extent continued to experience delays in global recovery. After three consecutive years of multi-billion-dollar losses, including an ICAO reported 2003 operating loss of \$2.8 billion globally, airlines have been counting on better news in early 2004.

Indeed the IATA International Traffic Statistics report for 2003 clearly indicated that SARS and a worldwide economic slowdown produced a dismal environment for the air transport industry in the first half of 2003.

The industry's full-year results for 2003 showed a decrease of – 2.4% in international IATA passenger traffic as compared to 2002. Capacity increased by 0.1% with a resulting load factor of 72.2% (-1.8 pts lower than 2002). The sharp decline in traffic started in February and hit its lowest value in May with – 19.8% (in RPK terms).

Not all regions were affected evenly. Carriers in North America and Asia Pacific were the most impacted, with decreases of 22.0% in April and 41.3% in May respectively. These regions took longer to recover, with both only recording positive traffic growth by October-November. In contrast Europe and the Middle East reported positive growth by early summer.

Nina furaha kubwa kuwaarifu kwamba katika kipindi cha mwaka wa fedha kilichomalizika tarehe 31 Machi 2004, Shirika la Kenya Airways limeweza kufanya biashara vizuri licha ya hali ngumu iliyokuweco kwenye sekta ya safari za anga. Ukweli ni kwamba, utendaji kazi huo mzuri uliweza kupatikana huku kukiwa na changamoto za kibiashara katika ongezeko la bei ya mafuta, matukio kadhaa ya nje ambayo yalipasiri biashara yetu ikiwa ni pamoja na ugonjwa wa homa ya mapafu (SARS), uvamizi wa majeshi yanayoongozwa na Marekani nchini Iraq na kuendelea kutolewa kwa ilani za kuwakataza wananchi wa mataifa ya kigeni kuja Kenya.

## Mtazamo wa Kibiashara

Mashirika mbalimbali ya ndege duniani yaliendelea kupata hasara. Baada ya miaka mitatu mfululizo ya kupata hasara ya mabilioni ya madola, ikiwa ni pamoja na hasara ya dola bilioni 2.8 iliyopatikana dunia nzima kupitia shirika la ICAO kwa mwaka 2003, mashirika mbalimbali sasa yanatazamia matokeo bora mwaka 2004.

Takwimu za wasafiri duniani za Chama cha Safari za Anga ulimwenguni IATA kwa mwaka 2003 zinaonyesha wazi kwamba ugonjwa wa SARS na kuzorota kwa uchumi duniani kulichangia katika kufifia kwa sekta ya safari za anga duniani kote katika kipindi cha nusu ya kwanza ya mwaka 2003. Hata hivyo, hali hii ngumu ya kibiashara ilitoweka polepole na mikakati kabambe iliyowekwa na Shirika la Kenya Airways kupunguza gharama ikaanza kuonekana, huku sekta ya safari za anga ikizidi kuimarika katika robo ya mwisho ya mwaka.

Matokeo kamili ya mwaka 2003 yanaonyesha upungufu wa wasafiri kwa asilimia –2.4 kulingana na orodha ya IATA ikilinganishwa na mwaka 2002. Uwezo wa mashirika mbalimbali ya ndege kubeba abiria uliongezeka kwa asilimia 0.1 huku ubebaji wa mizigo ukiongezeka kwa kiwango kikubwa cha asilimia 72.2 (ikiwa ni kiwango cha alama 1.8 chini kuliko mwaka 2002). Upungufu mkubwa wa wasafiri kwenye mashirika ya ndege ulianza kujitokeza mnamo mwezi Februari na ukazidi ilipofikia mwezi Mei kwa asilimia –19.8.



# The Chairman's Statement

## Taarifa ya Mwenyekiti

The year 2003 fortunately ended with an encouraging and widespread growth of 5.2% in RPKs for December and expectations of an upward trend of 7-8% for 2004. This has set the stage for a broad (if not steep) return to profits on the back of volume growth alone, although profit recovery should be augmented by across the board cost cuts effected by the industry and, hopefully, at least some recovery in yields.

As pointed out above, the recovery scenario looked promising at our year end, with one major caveat: The price of oil. Indeed, the fuel price spike early in 2003 to an average of \$1.04 per US gallon of jet fuel was well understood to have been caused by tensions connected to the March US-led invasion of Iraq. When the initial conflict ended quickly with Iraqi oil fields intact, the price quickly dropped to \$0.72 per USG. However, continued troubles in Iraq, the desire of the OPEC oil cartel to restrain supply and a newly elevated level of demand from China and other developing economies has continued to push the price upward.

Most of the important assumptions that airline executives used in their forecast for 2004 have proved accurate with the notable exception of a stable or declining fuel price, which will spell the difference between moderate success and dismal failure in the industry. Although high-priced at the start of the year, it was believed that fuel at the worst would go only marginally higher followed by a downward trend. That has not happened. The price has unfortunately continued to rise. The result is continuing losses for most airlines in the US and many in Europe and diminished profits throughout the Asia/Pacific, along with a few losses, for others.

While oil has inflated costs to untenable levels, traffic has fortunately started to come back, as was hoped. IATA first-quarter passenger traffic was strong - 6.5% above the 2001 levels which are used for comparison as the last "normal" first quarter. Among the major markets the Asia/Pacific region leads the advance - up 8.7% in the quarter from a very high base in 2001. Europe was 7.5% above the 2001 first quarter.

Cargo, which seems impervious to the turmoil afflicting the passenger market, was up 15.5% over the 2001 quarter worldwide and up an incredible 25.2% in the Asia/Pacific.

## Company Performance

During the year under review, against the enormous challenges affecting the

Hata hivyo, siyo maeneo yote yaliyoathirika kwa pamoja; mashirika ya ndege marekani kaskazini na Asia Pacific ndizo ziliathirika vibaya kwa kiwango cha katika sehemu ya pacific asilimia -22.0 mnamo mwezi Aprili na asilimia -41.3 mnamo mwezi Mei. Maeneo haya yalichukua muda mrefu sana kurudia hali yao ya kawaida na kupata tena wasafiri kuanzia mwezi wa Oktoba na Novemba. Kinyume na hayo, Uropa na Mashariki ya Kati ilipata ongezeko kuanzia wakati wa majira ya joto.

Kwa bahati nzuri mwaka 2003 ulimalizika kwa matokeo mazuri ya ongezeko la asilimia 5.2 kwa mwezi wa Disemba na kuna matumaini ya ongezeko la asilimia kati ya 7 hadi 8 kwa mwaka 2004.

Baada ya hasara zilizopatikana kwenye mashirika mbalimbali ya ndege duniani na mashambulizi ya kigaidi ya Septemba 11, huku ikisubiriwa kwa uchumi wa dunia kukua bila ya tishio la kuzuka kwa ugonjwa wowote utakaoathiri safari za ndege duniani, mashirika mbalimbali ya ndege yalikuwa na matumaini kwamba nusu ya pili ya mwaka 2003 itaweka hali kuwa nzuri katika kipindi kinachofuata cha mwaka 2004.

Kama nilivyoeleza hapo juu, matumaini ya kukua kwa biashara ni mazuri kwa mwaka huu lakini kuna kikwazo kimoja: bei ya petroli. Kwa hakika kuongezeka kwa bei ya petroli mapema mwaka 2003 kwa kiwango cha dolla 1.04 kwa pipa la mafuta ya ndege inajulikana wazi kulitokana na hali ya wasiwasi mnamo mwezi Machi baada ya majeshi yanayoongozwa na Marekani kuivamia Iraq. Wakati ambapo vita hivyo vilimalizika, huku visima vya mafuta vya Iraq vikiwa bado na mafuta yake, bei ilishuka hadi dolla 0.72 kwa pipa. Hata hivyo, kuendelea kwa mizozo nchini Iraq, na nia ya makundi fulani ya nchi wanachama wa shirika la mafuta duniani OPEC kuzuia usambazaji wa mafuta na nchi ya Uchina kutaka mafuta zaidi pamoja na matakwa ya bidhaa hiyo kutoka mataifa mengine yanayoendelea ndiyo iliyosababisha bei kupanda.

Matarajio mengi ya wakuu wa mashirika ya ndege duniani waliyotumia kukadiriya matumizi yao kwa mwaka 2004 yalifaulu kutokana na bei ya mafuta kubakia palepale, hivyo kuonyesha tofauti kubwa iliyopo kati ya kushinda na kushindwa. Ingawaje bei ya mafuta ilikuwa ghali mwanzoni mwa mwaka, iliaminika kwamba huenda hali ya kiuchumi ikiwa mbaya bei ya mafuta itapanda kwa kiwango kidogo tu na tena baadaye ianze kushuka. Lakini hiyo haikuwezekana. Kwa bahati mbaya bei ya mafuta imeendelea kupanda. Matokeo yake ni michoro myekundu kwa mashirika mengi ya ndege huko Marekani na faida kidogo katika maeneo ya Asia na Pacific, pamoja na hasara kwa wengine.

Wakati ambapo bei ya mafuta imeongeza gharama kuwa za kiwango cha juu, biashara pia imeanza kuonekana kuwa nzuri kama ilivyotarajiwa. Kulingana na takwimu za IATA za robo ya kwanza ya mwaka hali ilikuwa nzuri kwa asilimia 6.5 juu



aviation industry, the company achieved a sharp reversal of the declining profit trend experienced over the last two years. Net Profit after Tax ended on KShs 1,302m, a growth of over three times the restated prior year's result of KShs 400m. The net margin improved to 4.3% compared to prior year's 1.5%.

As explained above, the first six months of 2003 were adversely affected by a number of negative external events, the second half saw an easing in the impact of these events, which allowed Kenya Airways to experience a steady increase in demand on most sectors that generated a 9% increase in passengers carried in that period. This was coupled with a turnaround project undertaken by management to enhance revenue generation and to curtail expenditure, both of which yielded strong improvements in the airline's profitability.

Operational expenses for the year rose by 4.5%. This was driven mainly by the increase in the Jet fuel cost per ton, which rose by almost 12% year on year. The airline was able however to contain the impact of this on its own unit fuel costs to 8% by implementing an effective hedging strategy. Operational expenses also include the cost of retrenchment of KShs 250m and a one off leave pay adjustment of KShs 135m to comply with IAS 19. If these adjustments and fuel costs are excluded, operational expenses as a percentage of turnover show a considerable improvement from 80% to 73% of revenues and were contained to an increase of 1% year on year. This is in spite of an increase in flight hours and the opening of new stations in Bangkok, Hong Kong and Cape Town and is largely due to the success of the cost savings drive within the turnaround project.

## Kenya

Real GDP growth edged upwards to 1.6% in 2003 from 1.2% in 2002 and 2001. The rebound in real economic growth benefited greatly from the conducive macroeconomic environment prevailing in the country.

Inflationary pressures remained subdued with underlying inflation being confined within the target of 3.5% through implementation of appropriate monetary and prudent fiscal policies. Interest rates, on the other hand, have slipped downward thereby stimulating private sector demand. Consequently, lending to the private sector grew by 9.5% in the year to March 2004 after a long period of stagnation in demand for credit.

As the economy recovers, aggregate domestic demand will pick-up and with the assumption that oil prices will remain high for most of 2004, headline inflation is

ya kiwango cha mwaka 2001 kilichotumiwa kwenye kulinganisha kama kiwango cha "kawaida" cha robo ya kwanza ya mwaka. Miongoni mwa sehemu zenye biashara kubwa ni eneo la Asia na Pacific ambalo liliongoza kwa kiwango cha asilimia 8.7 kwenye robo hiyo kutoka kiwango cha juu katika mwaka 2001. Bara Uropa lilikuwa na asilimia 7.5 juu ya mwaka 2001 katika robo ya kwanza ya mwaka huo.

## Utendaji Kazi wa Shirika

Katika mwaka huu, mbali na changamoto mbalimbali zilizoikumba sekta ya usafiri wa anga, shirika liliweza kuimarisha mapato yake kinyume na ilivyokuwa miaka miwili iliyopita. Faida ya shilingi milioni 1, 302 ilipatikana baada ya kutozwa ushuru, hii ikiwa ni ongezeko mara tatu la faida ya shilingi milioni 400 za miaka iliyopita. Hata hivyo faida halisi iliyopatikana iliongezeka kwa kiwango cha asilimia 4.3 ikilinganishwa na asilimia 1.5 ya mwaka uliotangulia.

Ingawaje miezi sita ya kwanza ya mwaka 2003 ilikumbwa na misukosuko mingi kutokana na matukio kutoka nje, lakini matukio hayo yalianza kupungua katika nusu ya pili ya mwaka huo, na hivyo kuifanya Kenya Airways kuimarisha zaidi biashara yake kwenye idara mbalimbali na hivyo kutupatia kiwango cha asilimia 9 cha abiria waliosafiri katika kipindi hicho. Kadhalika, mipango ya shirika ya kuimarisha miradi ya kuzalisha fedha na kupunguza matumizi, yote iliweza kuimarisha faida yetu.

Gharama za usimamizi wa shirika ziliongezeka kwa mwaka hadi kiwango cha asilimia 4.5. Hali hii ilitokana na ongezeko la bei ya mafuta ya ndege kwa tani moja, ambapo bei iliongezeka kwa kiwango cha asilimia 12 kila mwaka. Lakini shirika liliweza kukabiliana na hali hii kwa kutumia gharama zake za matumizi ya mafuta kwa asilimia 8 pale tulipoanzisha mikakati ya kupunguza matumizi. Gharama za usimamizi pia zilijumuisha shilingi milioni 250 ikiwa ni gharama za kupunguza wafanyakazi na marekebisho ya kupata stakabadi ya IAS 19 ambapo tulilipa kiasi cha shilingi milioni 135. Ikiwa gharama za marekebisho na bei ya mafuta zitaondolewa, gharama za usimamizi pekee zinaonyesha ongezeko la kutoka asilimia 80 hadi 73 za mapato ya shirika ambapo ni ongezeko la asilimia 1 kila mwaka. Gharama zote hizi ziliweza kupatikana mbali na kuongezeka kwa saa za kusafiri na kufungua ofisi mpya katika sehemu za Bangkok, Hong kong na Cape Town, hii inatokana na kufaulu kwa mipango ya shirika ya kupunguza gharama za matumizi.

## Kenya

Gharama za mapato ya raia (GDP) zilizidi kuongezeka hadi kufikia kiwango cha asilimia 1.6 mwaka 2003 kutoka kiwango cha asilimia 1.2 katika miaka 2002 na 2001. Kuimarika kwa uchumi kulitokana na mipango kabambe ya kuendeleza biashara

# The Chairman's Statement

## Taarifa ya Mwenyekiti



expected to rise during the year.

Looking ahead, economic recovery is anticipated to remain on course with real GDP forecast to expand by 2.7% in 2004.

In the outlook, tourism, which is expected to play a crucial role in driving the recovery process, will experience cautious growth in 2004 due to the adverse effects of continued negative US travel advisories on Kenya and concerns over the need to reinforce stringent security measures.

Accelerated growth in exports of goods and services is expected to benefit from new market opportunities, particularly the COMESA and EAC regions, the expanded EU market, the Far East, and increased textile sales to the USA under AGOA.

### Sub-Saharan Africa

Many countries in Sub-Saharan Africa struggled economically in 2003. The region is estimated to have grown by 2.7% in 2003, which is even slower than in the previous three years. This was insufficient to make any meaningful difference to per capita income in the region. A sustained increase in per capita GDP would necessitate an overall growth rate of more than 5%. Growth was held back in 2003 owing to a

combination of problems ranging from political instability, armed conflicts, drought and depressed export commodity prices, especially beverages prices which remained soft.

The effects of the Iraq war in the first quarter of 2003, terrorism persistence globally and the SARS outbreak that dominated mid 2003, caused substantial drop-off in tourism to many countries and further eroded prospects of any economic recovery.

The future outlook is a little brighter as the improved world economic growth should feed through into stronger demand for Sub-Saharan African exports in 2004. On the downside however, many countries have suffered or look set to suffer from poor rainfall which would damage potential gains from agricultural produce. Higher oil prices are also proving a drag on many economies across the continent, particularly those that are net oil importers.

### Aeropolitics and market access

The past trend with air transport markets in America, Europe and Australasia being

kubwakubwa nchini.

Kupanda kwa mfumuko wa bei kutokana na thamani ya fedha za kigeni dhidi ya shilingi ya Kenya kulibakia katika kiwango kilichokusudiwa cha asilimia 3.5 kutokana na utekelezaji wa sera nzuri za kifedha. Kwa upande mwingine, viwango vya riba za benki vilishuka na hivyo kuchochea kukua kwa sekta ya kibinafsi. Kwa hivyo, mikopo ya kifedha kwa sekta ya kibinafsi iliongezeka kwa kiwango cha asilimia 9.5 katika mwaka huu hadi kufikia mwezi Machi 2004 baada ya muda mrefu wa kuzorota kwa utoaji mikopo.

Huku kukiwa na matarajio ya kukua kwa uchumi kiwango cha kadiri cha mahitaji ya kila siku pia kinatazamiwa kupanda na bei ya mafuta ikitarajiwa itaongezeka zaidi katika mwaka huu 2004, mfumuko wa bei kwa jumla pia unatazamiwa kupanda.

Tukitazama mbele, kuna matarajio ya kuendelea kukua kwa uchumi wa Kenya, huku gharama ya mapato ya raia (GDP) ikiwa ya kiwango cha asimilia 2.7 mwakani 2004.

Kwa mtazamo wa siku zijazo, utalii, ambao ndio ulitegemewa kuendelea kukua kwa uchumi, utapata matatizo kidogo katika mwaka huu wa 2004 kutokana na athari za ilani zinazotolewa na Marekani dhidi ya kuwaonya raia wake kuja Kenya na haja ya kuimarisha usalama kufuatia tisho la ugaidi.

Biashara ya uuzaji bidhaa na huduma nje inatazamiwa kunawiri kufuatia kupatikana kwa masoko mapya haswa kupitia soko la pamoja la COMESA na Jumuiya ya Afrika Mashariki (EAC), na soko la Jumuiya ya Ulaya (EU), Mashariki ya Mbali na ongezeko la uuzaji bidhaa za nguo nchini Marekani kupitia mkataba wa AGOA.

### Afrika Kusini mwa Sahara

Nchi nyingi kusini mwa Jangwa la Sahara zilijitahidi sana kiuchumi mnamo mwaka 2003. Uchumi wa eneo hili unatarajiwa kukua kwa kiwango cha asilimia 2.7 mnamo mwaka 2003, ikiwa ni kiwango cha chini ikilinganishwa na miaka mitatu iliyopita. Kiwango hiki kilikuwa kidogo mno kuweza kuwafaidi watu wa eneo hili kimapato. Kuongezeka kwa gharama ya mapato kwa raia (GDP) kwa kila mtu katika eneo hili kutasababisha kukua kwa kiwango cha mapato kwa asilimia 5. Kukua kwa uchumi kulizoroteshwa mnamo mwaka 2003 na kutokana na sababu mbalimbali ikiwemo wasiwasi wa kisiasa, vita vya wenyewe kwa wenyewe, ukame na kuanguka kwa bei za bidhaa zinazouzwa nje, haswa bei za vinywaji.

Matokeo ya vita vya Iraq katika robo ya kwanza ya mwaka 2003, tisho la ugaidi duniani na ugonjwa wa homa ya mapafu SARS ilisababisha kuzorota kabisa kwa sekta ya utalii na hali kuwa ngumu kwa matarajio yoyote ya kukua kwa uchumi.



substantially liberalized and a much slower deregulation process in Asia, Middle East and Africa has continued over the past year. Restrictive bilateralism and selective visa issuance conditions still hamper rapid route expansion and market access, despite the existence of multilateral conventions such as COMESA and the Yamoussoukro Decision. Two significant developments agreed upon over the past few years however are helping in the partial opening up of the skies: the WTO/GATS Air Transport liberalization of computer reservation system (CRS), ground handling, aircraft maintenance, and traffic rights. Firstly, ICAO has developed a revised Code of Conduct for the regulation and operation of CRS; and secondly, CRS are included in the Air Transport Annex to WTO's General Agreement on Trade and Services.

The inability of many countries, Kenya included, to attain the ICAO/FAA Category 1 classification further continues to delay plans for possible access to the vast American air transport market. For Kenya, it is hoped that the grant of full autonomy to KCAA and KAA will enable both organizations to address identified anomalies for the country to qualify for the Category 1 status, so that Kenyan airlines may physically access, or code share to the USA and beyond.

On the other hand, IATA, on behalf of its member airlines, is leading initiatives that will simplify the airline business to benefit both the industry and the customer by making a more efficient travel experience. The aim is to improve customer service whilst facilitating substantial cost savings to the airlines. These initiatives will include:

- e-ticketing;
- Common user self service kiosks (CUSS);
- Bar code standards;
- Radio Frequency Identification tags (RFID).

## Shareholding

The number of shareholders, which as of our report last year stood at 90,934, has since declined to 89,762. The shareholder profile as at 31st August 2004 is on page 30.

## Dividend

The Board is recommending approval by the shareholders of a final dividend of Ksh. 0.75 per share payable to the shareholders of the company on the Register of

Hata hivyo, mtazamo wa siku zijazo unaonekana kuwa mzuri kidogo kwani kukua kwa uchumi wa dunia kutaziwezesha nchi nyingi za kusini mwa Jangwa la Sahara kuweza kuuza bidhaa zao nje katika mwaka huu 2004. Lakini kwa upande wa pili, nchi nyingi zilikumbwa au zitakumbwa na ukame kutokana na kukosekana kwa mvua ya kutosha ambayo ingeharibu mapato yatokanayo na mauzo ya bidhaa za kilimo. Bei ya juu ya mafuta pia inaziumiza nchi nyingi barani Afrika ambazo hutegemea kuagiza mafuta kutoka nje.

## Upatikanaji wa Biashara

Mfumo uliopita wa safari za anga katika soko la Amerika, Uropa na Australia ambao unaendelea kuwekwa huru pamoja na utaratibu wa serikali kutodhibiti mashirika ya ndege katika maeneo ya Asia, Mashariki ya Kati na Afrika umeendelea kwa mwaka uliopita. Masharti magumu ya utoaji vyeti vya Visa bado unazuia upanuzi wa njia za usafiri wa ndege na upatikanaji wa masoko mbalimbali na kuwepo kwa mikataba kadhaa kama vile chini ya COMESA na Yamoussoukro. Hata hivyo, mipango muhimu miwili ya maendeleo, iliyokubaliwa katika miaka michache iliyopita inasaidia kufungua polepole anga zetu: mpango wa shirika la biashara duniani WTO/GATS ambao ni mpango wa usafiri wa anga uliwekwa huru pamoja na mfumo wa kompyuta unaotumiwa na mawakala wa safari za ndege (CRS), upokeaji wa abiria na mizigo katika viwanja vya ndege, urekebishaji wa ndege na sheria inayodhibiti safari za mashirika ya ndege. Kwanza, Shirika la Kimataifa la Safari za Ndege la ICAO limeanzisha kanuni zitakazodhibiti matumizi ya mfumo wa CRS; pili, mfumo huo wa CRS umeambatanishwa kwenye mapatano ya shirika la biashara duniani WTO kuhusu huduma za biashara.

Ukosefu wa uwezo katika nchi nyingi, Kenya ikiwa mojawapo, kupata kibali kiitwacho ICAO/FAA Category 1, kumesababisha kuzidi kuchelewa kwa nia yetu ya kuweza kusafiri hadi kwenye soko kubwa la Marekani. Kwa upande wa Kenya, kuna matumaini kwamba iwapo Chama cha Safari za Anga (KCAA) na Halmashauri ya Safari za Anga (KAA) yatawekwa huru, yataweza kutafuta njia za kutatua ili Kenya iweze kupata kibali hicho cha Category 1 ili mashirika ya ndege ya Kenya yakubaliwe kufanya safari zao nchini Marekani.

Kwa upande mwingine, shirika la IATA, kwa niaba ya wanachama wake, linafanya jitihada ambazo zitarahisisha mashirika wanachama kufaidika na pia kufaidi wateja kwa kuboresha safari za anga duniani. Lengo ni kuimarisha huduma kwa wateja huku pia tukitilia maanani upataji wa faida kwa mashirika ya ndege. Mipango hiyo inajumuisha:

- ukataji tiketi kwa njia za kompyuta (e-ticketing)

## The Chairman's Statement

## Taarifa ya Mwenyekiti



**The  
Chairman's  
Statement**

**Taarifa  
ya  
Mwenyekiti**

members at close business on 30th July 2004 and will be paid on or around 29th November 2004.

### **Directors**

The members of the Board who have served during the year are shown in the report of Directors on page 4-5.

Mr. S. P. Kyungu resigned as a Director on 31st July 2003 and was replaced by Dr. G. Ikiara on the same date.

Mr. H.M. Kiplagat resigned as a Director on 21st November 2003.

Mr. M. Cheserem was elected as a Director at the Annual General Meeting held on 21st November 2003.

Mr. J. Magari ceased to be a Director on 29th July 2004 and was replaced by Mr. J. Kinyua on the same date.

In accordance with the Company's Articles of Association, Messrs. M. L. Somen and D. Kapila retire by rotation and, being eligible, offer themselves for re-election at the 2004 Annual General Meeting.

I.E.O. OKERO  
CHAIRMAN

- vituo vidogo vya kujikatia tiketi (CUSS)
- utaratibu wa kanuni za viwango
- mtandao wa redio za mawasiliano (RFID)

### **Hisa**

Idadi ya wenyehisa, kulingana na ripoti ya mwaka jana ni 90, 934, idadi ambayo imepungua hadi 89, 762. Utaratibu wa hisa hizo hadi kufikia tarehe 31 Agosti mwaka 2004 umeonyeshwa kwenye ukurasa 30.

### **Mgawo**

Halmashauri (Bodi) ya Wakurugenzi imependekeza kwa wenyehisa kutoa mgawo wa mwisho wa senti sabini na tano (0.75) kwa kila hisa ya mwenyehisa kwenye orodha ya wenyehisa wa Kenya Airways kufikia tarehe 30 Julai 2004 na mgawo huo utalipwa kuanzia tarehe 29 Novemba 2004.

### **Wakurugenzi**

Bodi (Halmashauri) ya Wakurugenzi waliotumikia shirika katika mwaka huu unaomalizika wanaonekana kwenye ukurasa wa 4-5

Bw S. P Kyungu alistaafu mnamo Julai 31 2003 na nafasi yake kuchukuliwa na Dkt G. Ikiara tarehe hiyo hiyo.

Bw. H. M. Kiplagat alijiuzulu mnamo tarehe 21 Novemba mwaka 2003.

Bw M. Cheserem alichaguliwa kuwa mkurugenzi wa shirika wakati wa mkutano mkuu wa mwaka uliofanyika tarehe 21 Novemba 2003.

Bw J. Magari alijiondoa mnamo tarehe 29 Julai 2004 na nafasi yake ikachukuliwa na Bw J. Kinyua tarehe hiyo hiyo.

Kulingana na kanuni zinazosimamia shirika, Bw M. Somen na Bw D. Kapila wanastaafu kwa kupokezana na wanaweza kujitolea kuchaguliwa tena kuwa wakurugenzi kwenye Mkutano Mkuu wa mwaka 2004.

I.E.O. OKERO  
MWENYEKITI

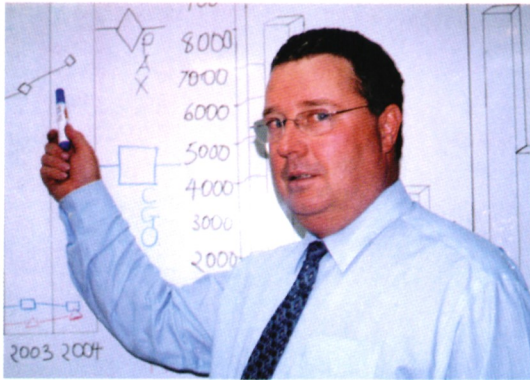




[ Mombasa ]

[ Dubai ]

[ Dar es Salaam ]



Mr. Chris Smyth - Group Finance Director



Mrs. Monica Oyas - Human Resource Director



Mr. Capt. James Ouma - Flight Operations Director



Mr. Titus Naikuni - Managing Director

**1. Mr. Titus Naikuni - Group Managing Director & CEO**  
Titus holds a BSc Honours Degree in Mechanical Engineering University of Nairobi and is a graduate of Harvard Business School Management Development programme. He joined the Magadi Soda Company in 1979 as a trainee engineer and rose to the positions of Managing Director of the company in 1995 and Managing Director of Magadi Railway Company in 1996. Between August 1999 and March 2001 Titus was a member of a team of World Bank sponsored Kenyan technocrats, known as the "Dream Team" who were engaged by the government to turn around the economy. In this capacity Titus served as permanent secretary in the Ministry of Transport and Communications and was a

member of the Board of Kenya Airways. He returned to Magadi Soda Company in April 2001 where he continued to serve as Managing Director, a position he held up to his present appointment with Kenya Airways in February 2003. Titus has had extensive boardroom experience, having served on various company boards including as a member of the board of Brunner Mond (South Africa), as chairman Kenya Power & Lighting Company and as chairman Housing Finance Company Limited. He received the COYA Manager of the Year award in Kenya in 2002.

**2. Mr Chris Smyth – Finance Director**

Chris holds a Bachelor of Commerce degree from the University of Natal in Durban and is a registered Chartered Accountant in South Africa. He joined Kenya Airways in December 2001 from Radiospoor Telecoms, a company that operates in the cellular telephone industry in Johannesburg where he was Finance Executive and a member

of the Board. He has previously worked as Group Financial Director of National Airways Corporation, a company that sold and supported Raytheon and Bell Textron general aviation aircraft throughout sub-Saharan Africa. Chris has had wide experience in a variety of finance roles in several other industries, including telecoms, steel tube manufacturing, hospitality and printing and publishing. He has a special interest in aviation and holds a commercial pilot's licence. Chris has responsibility for all finance, legal and supply chain functions within Kenya Airways.

**3. Mrs Monica Oyas – Human Resource Director**

Monica joined the Kenya Airways group from a robust and distinguished 9 years career with ABN AMRO Bank in leading HR roles, latterly as country head HR. She is well known in Kenyan circles for strategic, best practices approaches to human capital development and management. A member of several HR committees, she previously held senior HR and administration positions at the Kenya Broadcasting Corporation, union of national radio and television organizations programme exchange centre, and Ministry of Information and Broadcasting respectively. She has 18 years HR experience, much of which is with an international focus. Monica holds a MSc degree in industrial sociology/social psychology/international relations (University of Nairobi), a post-graduate certificate in human resources management (Cambridge tutorial college (UK) and post-graduate certificate in human resource skills in banking and finance (Euromoney Training Institute, London). Monica is in charge of all HR, training and security functions within the Kenya Airways group.

**4. Captain James Ouma – Flight Operations Director**

James undertook his pilot training at the East African Flying School, Soroti, in Uganda, in 1974 and completed his Commercial Pilot Licence in Perth, Scotland, in 1975. In 1978 he completed his Airline Transport Pilots Licence in Denmark. He joined





Mr. Hugh Fraser - Commercial Director



Mr. Kevin Kinyanjui - Information Systems Director



Mr. Tom Botha - Technical Director

Kenya Airways as first officer on Fokker aircraft in 1977 from East African Airways, where he had been seconded to the East African School as a flight instructor. In 1980 he graduated to Boeing 707s initially as first officer, gaining his captaincy six years later on the same aircraft. He moved to the Airbus A310 in 1989 and finally to Boeing 767s when they were acquired by the airline in 2001.

#### 5. Mr. Hugh Fraser – **Commercial Director**

Hugh holds a BA (Honours) degree in marketing from the University of Strathclyde, Scotland. He joined the British Airways marketing department in 1976 gaining experience in pricing and product development. In 1982 he joined KLM with responsibilities for pricing strategy, customer accounts and distribution channels for the UK and Ireland market and serving as Regional manager for North of England. In 1988 he joined a newly privatized British Airways serving as General Manager Sweden and subsequently as General Manager for the Benelux countries. Between 1999-2001 Mr. Fraser worked with Swissair/Sabena as Executive Vice President for sales gaining significant experience on the Europe-Africa market, Sabena having at the time the most extensive Africa network of any European carrier. He left Swissair/Sabena in 2001 to become Managing Director PGL Travel & Voyages, Europe's leading specialist operator of holiday and educational travel for young people. He joined Kenya Airways on 1st September 2003.

#### 6. Mr. Kevin Kinyanjui – **Information Systems Director**

Kevin Kinyanjui has had over 18 years experience in the Information Technology field. This includes 6 years at the management consulting firm Price Waterhouse, 6 years at Bamburi Cement Ltd and a total of 4 years in the banking sector, most recently at Housing Finance. He has attended many technical IT and management courses both locally and abroad. As an IT management consultant he carried out numerous

assignments in the finance, hospitality, manufacturing and service industries in both private and public sector organizations. These organizations were spread out beyond Kenya, into other Africa countries including Uganda, Tanzania, Malawi and Ethiopia. At Bamburi Cement where he was the head of IT for the entire group of companies in Kenya and Uganda, he was instrumental in strategy formulation, shifting the group to an end user computing environment, integrated ERP systems and putting in place a complete IT organisation. Kevin was the first IT Director at Housing Finance where he oversaw similar planning and implementation activities for banking business systems. This included the evaluation and selection of a completely new banking system platform. He also has experience in formulating and implementing strategies for all other areas like infrastructure and communications, office automation and IT security. He was also a member of the company's executive committee that oversaw the running of the company. In 2001 the Computer Society of Kenya awarded Kevin the chairman's Achievement Award in recognition of his achievements in the IT field.

#### 7. Mr. Hermanus Christoffel (Tom) Botha – **Technical Director**

Tom holds a BSc (Engineering) degree from Stellenbosch University in the Western Cape, South Africa and a BCom in Business Economics from the University of South Africa (UNISA). He joined South African Airways technical division in 1971 and rose to become Executive Manager Technical and chief inspector during the period 1994-99. In this capacity he had responsibility for all engineering and maintenance operations for that airline. He subsequently worked for three years with Qatar Airways as General Manager Technical. Tom joined Kenya Airways in June 2003 and has responsibility for aircraft technical and maintenance functions and for the maintenance and development of the airline's properties and buildings network wide.



[ Lusaka ]



[ Eldoret ]



[ Mumbai ]

“Despite a challenging trading environment brought about by a host of factors, we have continued to pursue our strategy to develop Kenya Airways as a World Class network airline by the year 2005 for the benefit of our Customers and Shareholders”.

## Accolade & Recognition

Kenya Airways Chairman Mr. Isaac Omoro Okero received an award at the 35th Annual General Assembly of Africa Airline International (AFA) held in Tripoli on 8th December 2003.

The award was granted in recognition of the Chairman's positive contribution to commercial aviation, having presided over the successful privatisation of Kenya Airways, as well as the leadership and focus he continues to provide, which has no doubt made Kenya Airways a role model in African aviation.

The year 2004 has yet again seen Kenya Airways regain its title of Best Regional Airline, a survey dubbed “Quest for the Best” conducted by Travel News Magazine. Our in-flight magazine, Msafiri, was also awarded the crown for the best in-flight magazine for the 7th year running by readers of Travel News Magazine.

## Turnaround Project

One of the challenges my team and I faced as we began this financial year was how to turnaround the profitability of the company from a downward trend to an upward one. We set up a team comprising approximately 30 members of staff to work with external consultants and review the following three areas: -

- 1) Opportunities to increase our revenues
- 2) Opportunities to reduce costs
- 3) The 3-year strategy

Mbali na changamoto katika mazingira ya kibiashara ambayo yameletwa na mambo kadhaa, tumeendelea kufuata mikakati yetu ya kulikua shirika la Kenya Airways ili liweze kuwa la kiwango cha kimataifa ifikapo mwaka 2005 kwa minajili ya wateja wetu na wenyehisa.

## Sifa na Kutambuliwa

Mwenyekiti wa shirika la Kenya Airways Bw Isaac Omoro Okero alipokea tuzo la heshima wakati wa mkutano mkuu wa 35 wa Chama cha Mashirika ya Ndege ya Afrika (AFA) huko Tripoli nchini Libya mnamo tarehe 8 Disemba mwaka 2003.

Zawadi hiyo ya heshima ilikuwa ni kuutambua mchango wa mwenyekiti wetu kwa kusimamia kwa mafanikio ubinafsishaji wa shirika la Kenya Airways na uongozi bora na msimamo alioendelea kuonekana katika shirika letu, ambao ni mfano bora wa kuigwa na mashirika ya ndege barani Afrika.

Na kwa mara nyengine tena mwaka 2004 uongozi huo ulimlipatia shirika la Kenya Airways sifa kubwa kwa kuwa Shirika Bora la ndege katika eneo hili kulingana na uchunguzi uliofanywa na jarida litwalo Travel News Magazine. Jarida letu la ndani ya ndege Msafiri pia liliweza kutunukiwa zawadi ya kuwa jarida bora zaidi kwa mwaka wa 7 mfululizo kwa kupigiwa kura na wasomaji wa Travel News Magazine.

## Mpango wa Kuimarisha Shirika

Mojawapo ya changamoto ambazo mimi na wakurugenzi wangu tunakabiliwa nalo katika mwaka huu wa fedha ni jinsi ya kuimarisha faida ya shirika. Tuliweza kuunda kamati ya wafanyakazi 30 ili kufanya kazi na watalaamu kutoka nje ili kuangalia maswala yafuatayo:

- 1) Njia za kuongeza mapato yetu
  - 2) Njia za kupunguza gharama
  - 3) Mkakati wa miaka mitatu
- Matokeo ya kazi yao yametuwzesha kugundua njia 58 za



The outcome of their work resulted in identifying of 58 initiatives covering areas of revenue enhancement and cost reduction. These initiatives are being pursued and I am pleased to report that we begun experiencing positive outcomes during the second half of the financial year. More results from these initiatives are yet to be seen in the coming financial year.

The turnaround project has been a success, resulting in the reversal of the downward trend in the company's profitability this year. As regards the 3-year strategy review, management has made a decision to commence work in the first half of the next financial year.

During the period under review, we embarked on a number of projects within the company, which I will cover hereafter.

### Staff training & Development

This was a challenging year, as we had to restructure the business and the organization in order to strengthen our focus on business growth and development.

The restructuring process gave rise to the realignment of core business activities to an airline business model, which resulted in the regrouping of functions, amalgamation of some and obsolescence of others. As a result, 263 staff were declared redundant in February 2004. This restructuring will be a continuous process dictated by the business environment at any given time.

The management team working with external expertise identified pertinent issues impeding the Airline's growth and development and thereafter reviewed the organization structure, undertook individual roles analysis and redefined employee specifications.

Throughout the restructuring process, the Company maintained good consultative and coordinative relations with all our social partners including the Kenya Airlines Pilots Association (KALPA) and the Transport and Allied Workers Union (TAWU).

The resultant information was important in underpinning decisions of matching individual skills and competencies to roles, determining skills that are no longer compatible with the business requirements as well as identifying training and development needs at the individual and corporate levels.

We humanely honoured our obligations to our distinguished employees who regrettably had to leave the Company as a result of the process. Developing a skilled, cohesive and productive human resources team motivated to achieve our vision

kuimarisha mapato yetu na kupunguza gharama zetu za matumizi. Njia hizo kwa sasa zinafuatiliwa kwa umakini na nina furaha kuwatangazia kwamba tulianza kuona matokeo ya kuridhisha katika kipindi cha pili cha mwaka huu. Matokeo mengine zaidi yanatarajiwa katika kipindi cha mwaka ujao wa fedha.

Mpango huu umefaulu kwa kiwango kikubwa ambapo tumeweza kuimarisha mapato yetu ikilinganishwa na mwaka jana. Kwenye Mkakati wa miaka mitatu, uongozi wa shirika umechukua uamuzi kwamba kazi kwenye mpango huo itaanza miezi sita ya kwanza ya mwaka ujao wa fedha.

Katika mwaka ambao tumeuangazia, tumeanzisha miradi mbalimbali ndani ya shirika, ambayo nitawaelezea hapo baadaye.

### Mafunzo na Maendeleo kwa Wafanyakazi

Mwaka huu ulikuwa na changamoto nyingi, na hivyo kulazimika kufanya mabadiliko ya hapa na pale kwenye mikakati ya biashara pamoja na kwenye shirika kwa jumla ili kuimarisha kwenye msimamo wetu kibiashara na kimaendeleo.

Mpango wa mabadiliko katika shirika umetuwezesha kupanga upya shughuli zetu muhimu za usafiri wa anga ili zilingane na lengo letu, ambapo matokeo yake ni baadhi ya shughuli zetu kuunganishwa, kuchanganywa na kuwekwa kwenye kundi moja na nyengine zikafutiliwa mbali. Matokeo yake ni kuachishwa kazi kwa wafanyakazi wapatao 263 kufikia mwezi Februari mwaka 2004. Mpango huu wa mabadiliko ya shirika ni utaratibu unaoendelea na ambao siyo kitu kipya kwenye shirika letu pekee kwani tunalazimika kufanya hivyo kutokana na hali ya kibiashara ilivyo kwa wakati wowote ule.

Uongozi wa shirika la Kenya Airways ukifanya kazi na wataalamu kutoka nje, ulitambua mambo kadhaa muhimu ambayo yalizuia kukua kwa shirika na maendeleo yetu na baada ya hapo kutazama mpangilio wa vyeo au uongozi wa shirika, kutazama kazi za kila mfanyakazi binafsi na hatimaye kumaliza kwa kufanua kazi za kila mfanyakazi.

Wakati huu wote, shirika la Kenya Airways lilikuwa na uhusiano mzuri na vyama mbalimbali tunavyoshirikiana navyo kama vile Chama cha Marubani (KAPA) na Chama cha Wafanyakazi wa sekta ya uchukuzi (TAWU).

Taarifa ya wataalamu hawa ilisaidia sana katika kutegemeza na kusawazisha kuunganisha majukumu ya wafanyakazi kulingana na utendakazi wao, na kutambua kazi ambazo si muhimu tena katika shirika kulingana na mahitaji ya shughuli zetu na pia kutambua mahitaji ya kutoa mafunzo kwa wafanyakazi wetu kwenye shirika.

Tulitimiza majukumu yetu yote ya kibinaadamu na kuheshimu wafanyakazi wetu



remains our focus.

Through the ab initio pilots training programme, 15 pilots successfully completed training in Addis Ababa on 30th March 2004. 15 others are undergoing training in South Africa. We have plans to continue training more of our Kenyan pilots in line with our growth. Training of pilots is an expensive exercise at a cost of over Kshs 3 million per pilot for entry level training.

At the corporate level through a building block training approach, all management staff went through team building training at Brackenhurst in Limuru. A Change Management Program was also conducted by trainers from the General Electric Company of USA.

In preparation for the arrival of our first Boeing B777-200ER aircraft, our pilots and engineers have undertaken the relevant training. Engineers have gone through electrical and mechanical systems training for the Boeing 777 in Seattle and simulator training in Amsterdam while the pilots have undergone flight and simulator training at the Boeing Company.

To facilitate a more effective approach to airline management, in May 2004 the senior management team and eighteen managers from across the business were trained by a representative from the International Airline Training Association (IATA) on the integrated approach to airline management. This program was funded by the International Aviation Training Fund (IATF).

Memorable customer care and service continues to be the driving force of our Airline. To sustain this customer care programme, both our ground and in-flight services staff continue to receive attention and will be developed to even greater heights through an all company customer care programme, to be launched later this year.

In recognition of the fact that human capital management will continue to play a significant role in the overall success of the company and be a single most important point of differentiation of our business, we continue to adapt Best Practise Human Resources Management approaches.

In this context, a job evaluation exercise has been undertaken. The outcome will be applied to underpin the framework for the company's salary grading structure, will link up to market data and will be utilised for succession planning and career development decisions.

Our Human Resources Management strategies will continue to focus on the employee as a valuable asset to the organization while visionary leadership will help

wapendwa ambao, kwa masikitiko makubwa hakukuwa na budi ila waondoke kufuatia kutekelezwa kwa mabadiliko haya. Bado ni lengo letu kuwa na wafanyakazi wenye ujuzi, ushirikiano miongoni mwao na wenye kutiwa motisha ya kufanya kazi.

Kupitia mpango uitwao Ab initio wa kutoa mafunzo kwa Marubani, wanafunzi wa urubani wetu 15 walifaulu kumaliza mafunzo mjini Addis Ababa mnamo tarehe 30 Machi 2004. Na wengine 15 wanaendelea na mafunzo yao nchini Afrika Kusini. Pia tuna mipango ya kuendelea kutoa mafunzo zaidi kwa marubani wetu kulingana na uwezo wetu wa kifedha na jinsi shirika linavyoendelea kupanuka. Mafunzo kwa marubani ni ghali sana kwani hugharimu shilingi milioni 3 kwa rubani mmoja.

Katika kiwango cha uongozi kwenye shirika, kupitia mpango wa kutoa mafunzo, wafanyakazi wote walioko katika nafasi ya uongozi, walihudhuria mafunzo ya kufahamiana vyema na wenzao kazini huko Limuru katika kituo cha Brackenhurst. Pia mafunzo ya Mabadiliko ya Usimamizi yalitolewa na wataalamu kutoka kampuni ya General Electric ya Marekani.

Kwa kujitayarisha na kuipokea ndege yetu kubwa ya kwanza aina ya Boeing 777, marubani wetu na wahandisi walipewa mafunzo kuhusiana na ndege hiyo. Wahandisi walipata mafunzo yao kuhusu urekebishaji wa ndege aina ya Boeing 777-200 katika mji wa Seattle huko Marekani na jiji la Amsterdam huko Uholanzi ambapo mafunzo ya kutumia vyombo vya usafiri wa angani yaani simulation yalitolewa kwa marubani katika makao makuu ya kampuni ya Boeing.

Ili kufuata vyema mpango wa Uendeshaji Mashirika ya ndege, mnamo mwezi Mei mwaka 2004, wafanyakazi wetu wa ngazi za juu na wahandisi wapatao 18 kutoka kila idara ya shirika walipata mafunzo kutoka kwa mwakilishi kutoka Chama cha Kimataifa cha Mafunzo ya Safari za Anga (IATA) kuhusu jinsi ya kulinganisha usimamizi wa mashirika ya ndege. Mpango huu wa mafunzo ulifadhiliwa na Hazina ya Kimataifa ya Mafunzo ya Safari za Anga (IATF).

Uhusiano bora usiosahaulika na huduma bora kwa wateja wetu bado unaendelea kuwa msukumo wa shughuli za shirika letu. Ili kuzidi kukabiliana na mpango huu wa uhusiano mwema kwa wateja wetu, kwa wafanyakazi wetu wote kwenye viwanja vya ndege na wale wanaotoa huduma ndani ya ndege, shirika limeendelea kuwapatia mafunzo na tutaendelea kuimarisha sekta hiyo kwa kiwango cha juu, katika mpango utakaozinduliwa baadaye mwakani.

Kuelewa umuhimu wa kusimamia vyema wafanyakazi kutaendelea kuwa swala la muhimu sana katika shirika letu na kutufanya tuwe tofauti na mashirika mengine katika utendaji kazi wetu, jambo ambalo tutalitekeleza kwa dhati.

Kufuatia hatua hii, zoezi la kuthamini majukumu ya wafanyakazi limetekelezwa.

Chief  
Executive's  
Statement

Taarifa  
ya Afisa  
Mkuu



enhance our Human Resources strategy that will continuously be integrated into the overall business plans of the Company.

### Fleet Modernization

Our ten-year fleet renewal programme commenced with the acquisition of three state-of-the-art Boeing 767-300ER aircraft in 2001, fashioned on the award winning Boeing 777 design. This year marked the start of the second phase of our fleet modernization programme with the successful delivery of Africa's first Boeing 777-200ER aircraft in May.

The new Boeing 777 serves the Lusaka, Lilongwe, London and Amsterdam routes. It has a capacity of 322 seats, including 28 business class and 294 economy class seats. The Boeing 777 is the first of a new generation of passenger aircrafts designed to offer the passenger maximum comfort no matter which class they travel.

The Boeing 777 advantage is highlighted by the availability of more personal space, a spacious and larger cabin, more legroom and seating area, wider seat and aisles, overhead space utilisation and quieter cabin. The available video on demand (AVOD) in-flight entertainment system has also been fitted to our first 777.

Aircraft selection is directed by specific air travel demand per route that takes into account the past trends and future projections for business.

Kenya Airways' fleet currently consists of six Boeing 767-300 wide bodied aircraft, four B737-700, four B737-300, three B737-200, two SAAB 340B and one B777-200ER with two additional 777s scheduled to be delivered in May and June 2005. The 777 fleet will be Kenya Airways' flagships for long haul destinations into the 21st Century.

Matokeo ya zoezi hili yatawezesha kuweka msingi wa utoaji wa viwango vya mishahara kwa wafanyakazi, na pia huu ni mpango ambao umeweka msingi bora wa kutumia takwimu hizo kwenye soko la biashara yetu wakati tunapotaka kufanya uamuzi juu ya mambo fulani.

Mikakati yetu ya kusimamia wafanyakazi itaendelea kutilia maanani maslahi na kumthamini mfanyakazi wetu kama rasilmali bora kwenye shirika letu na maono ya uongozi wa shirika letu yatasaidia kuimarisha mpango huo ambao utaendelea kujumuishwa kwenye mipango yetu ya siku zijazo.

### Kuimarisha Safari za Ndege

Mpango wetu wa miaka kumi wa kuimarisha ndege zetu ambao utakuwa ukitazamwa upya kila mwaka ,ulianza kwa kununua ndege tatu za kwanza za kisasa kabisa aina ya Boeing 767-300ER, ambazo zimetengenezwa kufuatia muundo wa ndege zenye sifa za kimataifa za Boeing 777. Mwaka huu umeshuhudia mwanzo wa awamu yetu ya pili ya mpango wa kuimarisha safari za ndege zetu kwa kupokea ndege ya kwanza ya aina ya kipekee katika bara la Afrika aina ya Boeing 777-200ER mnamo mwezi Mei.

Ndege hii aina ya Boeing 777 inaenda Lusaka (Zambia), Lilongwe (Malawi), London (Uingereza) na Amsterdam (Uholanzi). Aina hii ya ndege ina uwezo wa kubeba abiria 322; ikiwa ni pamoja na viti 28 vya daraja la Kibiashara, na viti 294 vya daraja ya Kiuchumi.

Ndege aina ya Boeing 777 ni ya aina ya kipekee kwa usafiri wa abiria ambayo imetengenezwa ili kuwapa wasafiri upeo wa raha na starehe safarini bila kujali daraja lolote lile wanalosafirira.

Ndege mpya aina ya B777 inatoa fursa kwa wasafiri kuwa na nafasi ya kutosha kwenye viti ndani ya chumba cha ndege, viti vipana na nafasi ya kupita, nafasi ya kutosha ya juu ya kuwekea mizigo, sehemu ya ziada ya kunyooshea miguu na chumba cha ndege kisichokuwa na kelele. Kadhalika kwenye ndege hii aina ya B777 kifaa cha AVOD ambacho kinamuwezesha msafiri kutumbuizwa kwa muziki na filamu akiwa ndani ya ndege pia kimewekwa kwenye ndege hii yetu ya kwanza aina ya Boeing 777.

Uteuzi wa ndege hizi ulifanywa kulingana na matakwa ya wasafiri kutokana na mwenendo wa usafiri na matarajio ya kibiashara ya siku zijazo.

Shirika la Kenya Airways kwa sasa lina ndege sita aina ya Boeing767-300 za muundo mpana, nne aina ya B737-700, nne aina ya B737-300, tatu aina ya B737-200, mbili aina ya SAAB 340B na moja aina ya B777-200ER na zingine mbili za aina hii



## New Products

### New Booking Engine

To make it easier and more convenient for our customers to book flights, Kenya Airways has launched online facilities on our website [www.kenya-airways.com](http://www.kenya-airways.com).

Through this tool, passengers can make ticket bookings either using cash or credit cards online. What's more, customers who pay for their tickets using their credit card can have their tickets delivered to them.

To minimize online credit card fraud, Kenya Airways has gone a step further and incorporated the latest technology to ensure that card information while in transit over the net is secure so that even if it is intercepted in transit it is impossible to decode.

### The New Kenya Airways Website

The new Kenya Airways website was launched in February 2004, and now customers are able to make their bookings and reservations online. So far the response from the various markets has been extremely encouraging. Customers will soon be able to select their preferred seat online before they travel. In addition, a new website for corporate customers [www.kqbiz.com](http://www.kqbiz.com) is currently being rolled out. The new site will give our corporate customers greater control over their corporate travel expenditure and flexibility over their corporate travel plans on Kenya Airways.

### Inventory Distribution

The role of inventory distribution is to ensure that seats are available for purchase by our passengers throughout the world. Travel agents use computer reservation systems (CRS) such as Amadeus, Sabre, Worldspan and Galileo to book seats for their customers. Distribution costs make up a significant proportion of all charges related to ticket sales. In order to control distribution costs as a result of invalid bookings by travel agents, robotic software was implemented on the reservation system in May 2003 to handle unproductive bookings and costs associated with these bookings. In addition, monthly audits of reservation costs are carried out to continuously identify opportunities for cost reduction. These two strategies have significantly reduced costs that are associated with unproductive and invalid bookings.

ambazo zimepangiwa kuletwa mnamo mwezi Mei na Juni mwaka 2005. Ndege aina ya B777 zitakuwa ndizo zinazoshikilia uongozi wa safari za masafa marefu kwenye shirika la Kenya Airways katika karne ya 21.

### Huduma Mpya

#### Mtandao mpya wa ukataji tiketi

Ili kuhakikisha wateja wetu watakata tiketi zao kwa njia rahisi, shirika la Kenya Airways limeanzisha mtandao [www.kenya-airways.com](http://www.kenya-airways.com)

Kupitia mtandao huu, wasafiri wanaweza kukata tiketi zao kwa kutumia pesa taslimu au kadi za mkopo. Isitoshe wateja watakaolipa tiketi zao kwa kutumia kadi watapelekewa tiketi zao mahali walipo.

Ili kupunguza udanganyifu katika matumizi ya kadi hizi, shirika la Kenya Airways limepiga hatua ya kushirikisha kiteknolojia ya kisasa kabisa ili kuhakikisha taarifa kuhusu kadi zinazotumiwa kwenye mtandao ziko salama na hata kama taarifa hizo zitaweza kunaswa njiani kwa njia ya udanganyifu, itakuwa vigumu kuweza kupata chochote na hivyo basi itakuwa kazi bure.

#### Mtandao Mpya wa Kenya Airways

Mtandao mpya wa Shirika la Kenya Airways ulianzishwa rasmi mnamo mwezi Februari mwaka 2004 na kwa sasa wateja wetu wanaweza wakakata tiketi zao na kuhifadhi viti vyao kabla ya kuvilipia kupitia njia hii. Kufikia sasa matokeo ya mpango huu ni ya kuridhisha. Hivi karibuni wateja wetu wataweza pia kujichagulia mahali wanapotaka kukaa kwenye ndege kupitia mtandao huu kabla ya kuanza safari. Kadhalika mtandao wetu mpya kwa ajili ya wateja wa mashirika [www.kqbiz.com](http://www.kqbiz.com) utaanzishwa rasmi hivi karibuni. Mtandao huu mpya utakapoanzishwa utawawezesha wateja wetu wa mashirika mbalimbali kudhibiti gharama zao za safari na kuweza kupanga vyema safari zao kwa kupitia shirika la Kenya Airways.

#### Usambazaji wa Orodha ya Mauzo

Lengo kuu la mpango huu ni kuhakikisha kwamba viti vyote ndani ya ndege zetu vinapatikana kwa njia ya urahisi kote duniani. Mawakala wa safari za ndege hutumia mfumo wa kompyuta uitwao (CRS) Computer Reservations Systems kama vile Amadeus, Sabre, Worldspan na Galileo kukatia wateja wao tiketi. Gharama ya mauzo ya tiketi za ndege ndiyo inayochukua sehemu kubwa ya malipo ya mauzo. Ili kuzuia usambazaji wa gharama kwenye mauzo ya tiketi unaotokana na wateja wanaovunja



## Information Systems (IS)

The development of IS in the company continues to be a key driver for releasing efficiency in various parts of the organizations. During the financial year 2003, many information systems initiatives were implemented. These continue to enable the airline to manage itself more efficiently and to meet its future growth plans successfully.

We replaced the revenue accounting system in the finance department. The new system, RAPID, is expected to improve efficiencies in the calculation and accounting for revenues as well as provide more meaningful, timeous and accurate management information, including detailed agent productivity. This project is in complete response to KQ's expansion program and fulfills the requirements of electronic data interchange with our alliance partners to ensure the prompt billing and settlement of revenues.

We oversaw the design and development of a new management information and network wide performance monitoring system dubbed "WINGS". We effected a pilot implementation that will ensure that daily performance information is readily communicated to the management and decision support teams. Its reports are available within the company's intranet and in addition, it also uses common communication mechanisms such as SMS and email to keep key decision makers informed even when they are away from their offices. The project is being rolled out in phases and initially provided yield and cabin factor information but will in future provide complete route profitability analysis at strategic, tactical and operational levels by the middle of 2004.

We internally developed and implemented a new cargo handling system for the Mombasa station. This system is used for capturing import/export cargo, preparing/printing export AWBs, export manifests, charges calculation, imports documentations and reporting. As a result, cargo handling operations at the station have been enhanced, documentation standardised with the Nairobi hub and service delivery to customers immensely improved. We have also developed the Cargo Sales and Proration System (CASP). CASP automates sales data capture, rates calculation, sales reporting and revenue proration for cargo sales. The system was implemented in three Kenya Airways stations – Dubai, Johannesburg and Nairobi.

There were additional initiatives to give in-flight staff access to their email accounts hosted within the company from any location in the world using Internet access. This has improved internal company communication and collaboration for

safari zao kupitia mawakala wa safari za ndege, mfumo wa kompyuta uitwao robotic software ulianzishwa rasmi mwezi Mei mwaka 2003 ili kukabiliana na gharama zinazotokana na na ukataji tiketi jinsi hii. Kadhalika, tunakagua hesabu ya gharama za mauzo ya tiketi kila mwezi ili kutambua njia za kupunguza gharama za shughuli hii. Mikakati hii imepunguza kwa kiwango kikubwa gharama zinazoambatana na kuuzwa kwa tiketi kwa njia zisizofaa.

## Teknolojia ya Mawasiliano

Uimarishaji wa teknolojia kwenye shirika letu umeendelea kuwa kigezo muhimu cha kutuwezesha kupata ufanisi kwenye idara zote za shirika la Kenya Airways. Katika mwaka wa fedha 2003, miradi mingi ya teknolojia ya mawasiliano ilianzishwa katika shirika letu. Hatua hii imeliwezesha shirika kujiimarisha na kuweza kujisimamia kwa njia ifaayo ili kukabiliana na mipango yetu ya baadaye.

Katika kipindi cha mwaka huo tuliweza kubadilisha mfumo wa kukagua mapato kwenye idara ya fedha. Mfumo mpya uitwao RAPID unatazamiwa kuimarisha ufanisi katika kukagua mapato na pia kutoa maelezo yenye maana zaidi kuhusu utendaji kazi wa mawakala ili mwanzo na mwisho wa safari ulingane na maelezo kuhusu mapato yaliyopatikana. Mradi huu unakwenda sambamba na mpango wa shirika la Kenya Airways kujiimarisha kwenye teknolojia ya mawasiliano ili kuuwiana na washirika wetu katika biashara hii ili kuhakikisha malipo ya haraka kwa shughuli zetu.

Pia tulishuhudia kuundwa na kutekelezwa kwa mtandao mpya wa kuthibiti mawasiliano uliopewa lakabu ya WINGS. Tuliufanyia majaribio mradi huu ambapo taarifa za kila siku za utendaji kazi zinaweza kupatikana na kusambazwa kwa haraka kwa wakuu wanaohusika kwenye shirika. Taarifa za mradi huu zinapatikana kwa urahisi kupitia mtandao wa shirika, na kadhalika unatumia utaratibu wa mawasiliano ya pamoja (SMS) na barua-pepe kuwafahamisha wakuu wa shirika yale yote yanayoendelea hata kama hawapo kwenye ofisi zao. Mradi huu unatekelezwa kwa awamu kadhaa ambapo mwanzo ulitoa taarifa za ndani ya ndege na kwenye viwanja, lakini katika awamu zijazo utaweza kutoa kwa ukamilifu mchanganuo wa taarifa katika nyanja mbalimbali za utendaji kazi wa shirika kufikia katikati ya mwaka 2004.

Kadhalika tulianzisha na kutekeleza mpango mpya wa kupokea shehena za mizigo huko Mombasa. Mpango huu unatumia kutazama shehena inayosafirishwa na kutoka nje, kutayarisha/kuchapisha stakabadhi za kusafirishia bidhaa nje zaitwazo AWB, kupiga hesabu za malipo na kadhalika. Kufuatia hatua hii, huduma za kupokea shehena huko Mombasa ziliimarika, utaratibu wa kushughulikia stakabadhi uliweza kusawazishwa na kituo cha Nairobi na huduma kwa wateja kuimarika maradufu. Pia



such staff. The same philosophy will be applied to business applications in the next financial year as much as possible.

We have also improved the inter-office voice communications between the Kenya Airways base and its subsidiary offices by further integrating the subsidiaries' PABX systems into the main Kenya Airways system. This has also reduced inter-office communication costs. We have also made great strides in providing more redundancy for the inter-Nairobi offices connectivity for data and voice services. This has been achieved through an inter-connecting cable based network with wireless technology to backup the existing network running on Telkom Kenya. This has improved service availability to much higher levels. In addition, we implemented a call billing and monitoring system that effectively monitors and facilitates the control of the use of the telecommunication resources within the company. This means that we are now able to better measure and manage communications costs while at the same time improve our contact to and from our customers. We have also rationalised the use of the communications assets by providing them only to value adding resources and thus curtailing their misuse.

We introduced a new service to promote external consultants from overseas who need to support systems in Kenya Airways, to connect remotely through the Internet using Virtual Private Network technology. Instead of the consultants coming on site to solve system problems, which may be time consuming and costly, they can now promptly connect remotely to our systems at Kenya Airways. Our information protection unit has also made efforts to enhance the awareness of importance of IS security and the role that all staff play in it across the Company.

Given the high level of response times that are required by KQ's mission critical systems, our IS Operations unit introduced various initiatives which focused on infrastructure upgrades as well as adopting solutions which can pro-actively address network-wide performance monitoring, capacity planning and the shortest time to service delivery.

During the financial year 2004, we intend to carry out more information systems initiatives, as this is a key strategic area towards improving productivity and the introduction of new efficiencies in many processes in the Company.

## Network Development (Alliances & Partnership Development)

During the year 2003/4, in line with our network strategy, we have continued to strengthen Nairobi as a main hub in Africa through better connectivity and

tulianzisha Mpango wa mauzo ya shehena ujulikanao kama CASP. Mpango huu unatumia teknolojia ya kisasa kutazama uchanganuzi wa hesabu za mauzo, viwango vya usambazaji wa shehena na taarifa za mapato yatokanayo na mauzo. Mpango huu ulianzishwa katika vituo vitatu vya Kencargo - Dubai, Johannesburg na Nairobi.

Kadhalika kulikuwa na haja ya kuwapa wafanyakazi wetu wa ndani ya ndege fursa ya kuweza kufungua na kusoma barua - pepe zao kwenye mtandao wa shirika kutoka mahali popote pale watakapokuwa duniani. Hatua hii imeimarisha mawasiliano miongoni mwa wafanyakazi wetu. Mpango huu pia utajumuishwa kwenye vitengo vingine vya kibiashara kwenye mwaka ujao wa fedha.

Pia tumeweza kuimarisha huduma yetu ya mawasiliano ya kutumia sauti miongoni mwa kampuni zetu zote tanzu kwa kujumuishwa mitambo yao ya kupokea simu PABX na kuwa kitu kimoja. Hatua hii pia imepunguza gharama ya mawasiliano yetu ya ndani kutoka afisi hadi nyingine. Pia tumeweza kufanikiwa kupunguza kwa kiwango kikubwa matumizi yasiyo na umuhimu ya njia hii ya mawasiliano katika afisi zetu za Nairobi kwa kuunganisha mitambo yake. Hatua hii imeweza kufanikiwa kwa kuziunganisha na teknolojia mpya isiyotumia waya zozote ili kuimarisha mawasiliano na mtambo wa shirika la Telkom Kenya. Hatua hii imeweza kuimarisha kwa hali ya juu utoaji wetu wa huduma. Pia tumeweza kuanzisha mpango wa malipo kwa kupiga simu ndani ya shirika na kuweza kudhibiti matumizi ya simu. Hii ina maana kwamba sasa tunaweza kupima na kusimamia vyema mawasiliano kati yetu na wateja wetu na kujua gharama zake. Kadhalika tumeweza kusawazisha matumizi ya rasilmali zetu za mawasiliano kwa kuzitumia mahali tunapona pana faida na hivyo basi kupunguza matumizi mabaya ya vifaa hivyo vya mawasiliano.

Shirika la Kenya Airways pia limeanzisha huduma mpya ya kuvutia wataalamu kutoka nje ambao wangependa kutusaidia, kuunganishwa kwa njia ya mtandao uitwaoyo Virtual Private Network. Njia hii ya kisasa inawezesha wataalamu hao badala ya kuvunja safari na kuja hadi humu nchini kutatua tatizo hilo, wanaweza kuunganishwa kwenye mtandao wetu na kuifanya kazi hiyo hukohuko waliko. Idara ya kuzuia taarifa pia imejaribu iwezavyo kuimarisha juhudi za kuwahamasisha wafanyakazi wetu kuhusu umuhimu wa kuilinda teknolojia ya mawasiliano.

Kulingana na hali ya juu ya shirika letu linavyotakiwa kujibu kwa haraka taarifa za mikasa mbalimbali, idara yetu ya teknolojia ya mawasiliano imeanzisha jitihada mbalimbali ambazo zinalenga kwenye kuimarisha miundo msingi na kutafuta suluhisho ambalo linaweza kutatua ufuatiliaji wa shughuli zetu, uwezo wa kutekeleza mipango ya baadaye kwa muda mfupi na wakati huohuo kutoa huduma zetu.

Katika kipindi cha mwaka wa fedha 2004, shirika la Kenya Airways linatarajia



increased frequencies.

Kenya Airways spread its wings to the Far East when we commenced operations to Bangkok (Thailand) and Hong Kong (China), operating 3 weekly flights.

In Southern Africa, 3 new flights were commenced to Cape Town thereby increasing our presence in the region by adding to the existing 10 flights per week to Johannesburg. Capacity was also increased on Lilongwe, Lusaka and Harare through the utilization of 767s and 777s in place of some of the scheduled 737 services.

One additional flight was mounted to Khartoum and Cairo. This has improved performance on these routes in terms of both passenger numbers and increased cargo uplifts.

Through partnerships with Precision Air and Rwandair Express we have achieved wider coverage in the East African region. We have also expanded code share destinations with KLM and Maersk Air in the United Kingdom, Denmark and the rest of Europe.

## New Sales Programme

During the year 2004/05, Kenya Airways introduced Travel Agency Incentive Programmes (AIPs) to modify the basis of commission remunerations. Rather than rely solely on IATA's flat rate commissions, Kenya Airways seeks to remunerate travel agents' actual sales performance with a scale of incentive commissions based on achievement of revenue targets for the airline (and partners if they seek to be included). By introducing AIPs in Kenya and other key markets, Kenya Airways plans to reallocate distribution costs and commissions to travel agents with greater loyalty, market share and revenue performance for their airline.

Similarly, Kenya Airways plans to introduce additional corporate incentive programs (CIPs) in Kenya to encourage corporate clients develop travel compliance policies that reward corporate loyalty to Kenya Airways with volume discounts. CIPs can be tailored to the forecast annual expenditure of the corporate client on Kenya Airways network, based on the revenue, passenger volumes, class of fare and cabin (economy or Premier World). The corporate incentive payments, or discounts, are also performance linked during 2004/5. CIPs can be ticketed and co-managed by the Corporate's nominated travel agent or directly with Kenya Airways depending on the Corporate's wishes. Kenya Airways has also developed a corporate booking tool to provide an online self booking facility through their website.

kutekeleza mipango mbalimbali ya kuimarisha sekta hii ya teknolojia ya mawasiliano, kwani ni sekta muhimu sana ya kuimarisha utoaji huduma na mwanzo wa kuleta ufanisi kwenye shirika letu.

## Uimarishaji wa Safari Zetu ( ushirika na uhusiano na mashirika mengine)

Katika mwaka 2003/4, kulingana na mikakati yetu, tumeendelea kuiongezea Nairobi sifa kuwa kituo muhimu cha safari za ndege katika eneo hili na kuongeza safari za ndege kwenda katika maeneo mbalimbali.

Shirika la Kenya Airways limeendelea kupanua mbawa zake hadi Mashariki ya Mbali tulipoanza safari za kwenda Bangkok (Thailand) na Hong Kong (Uchina), kwa kuwa na safari tatu kwa wiki.

Katika eneo la Kusini mwa Afrika, safari mpya tatu zilianzishwa kwenda Cape Town na hivyo basi kuongeza kuwepo kwetu katika sehemu hiyo ambapo tumeongeza safari zetu zilizopo hadi 10 kwa wiki kwenda Johannesburg. Pia tulianzisha safari za kwenda Lilongwe, Lusaka na Harare kwa kutumia ndege aina ya B767-300 na B777 ili kuongezea uwezo kwa ndege aina ya B737 zilizokuwa zikifanya safari za huko hapo awali.

Safari ingine moja ya kwenda Khartoum na Cairo iliongezwa. Hii imeweza kuimarisha usafirishaji wa abiria na mizigo katika njia hiyo.

Kwa ushirikiano na kampuni ya Precision Air, East African Airlines na Rwandair Express, Kenya Airways imeweza kufika katika miji yote mikuu ya eneo hili la Afrika Mashariki. Pia tumeweza kuongeza safari zetu katika sehemu zingine ulimwenguni kwa kupitia uhusiano na KLM na Maersk Air hadi Uingereza, Denmark na sehemu nyengine za bara Uropa.

## Mpango Mpya wa Uuzaji Tiketi

Katika kipindi cha mwaka 2004/05, shirika la Kenya Airways (KQ) limeanzisha mpango wa kutia motisha kwa mawakala wa safari za ndege uitwao kwa ufupi (IAPs) ili kuweza kubadilisha jinsi wanavyolipwa asilimia za faida zitokanazo na uuzaji wa tiketi. Badala ya kutegemea viwango sawa vilivyowekwa na shirika la IATA, shirika la Kenya Airways limeamua kuwalipa mawakala wake asilimia za faida zitokanazo na kiwango kamili cha mauzo ya tiketi walizouza, na iwapo watakuwa wamefikisha malengo ya mauzo ya tiketi ya shirika (na washirika wetu iwapo pia wanataka kujumuishwa kwenye mpango huu). Kwa kuanzishwa kwa mpango huu wa IAPs humu nchini na kwengineko, shirika la Kenya Airways lina lengo la kusambaza gharama za kulipa asilimia ya faida kwa mawakala wetu.



## Cargo Business

In order to meet the ever-changing demands of the Aviation Industry, Kenya Airways Group has undergone a business review and corporate reorganisation. Kenya Airways acquired full ownership and control of KenCargo Airlines International through a buy-out of shares held by two of its previous co-shareholders, Martinair and KLM. As a result of this process, it was decided also to absorb the functions of KenCargo Airlines International Limited into Kenya Airways as the Kenya Airways Cargo division under the Commercial Department.

The arrival of the first 777 and the introduction of the sixth 767 into Kenya Airways fleet gives the KQ Cargo division the much needed capacity to grow the cargo business further. The closer cooperation between KQ Commercial department and the Cargo division has already yielded results following the upgrades from 737s to 767s on major intra-Africa routes such as Lusaka, Lilongwe, Harare and Kinshasa. Our customers have acknowledged this trend and the cargo results are in line with the company's expectations. Furthermore Kenya Airways Cargo will offer 767 cargo capacity to the high-yielding West African destinations of Accra and Abidjan with effect from June 2004.

The increased capacity from the 777s will enhance our capacity to operate freighter services for feeding and de-feeding through Nairobi and will strengthen Nairobi as the preferred cargo hub in Africa. Currently KQ Cargo operates a weekly Nairobi-Mwanza service with the 737-200QC (dual purpose cargo or passenger configuration aircraft). It is the intention however of KQ Cargo management to increase the utilisation of the QC by looking at the viability of a freighter service to Kigali, Bujumbura and Zanzibar.

Apart from adding more capacity for our customers, Kenya Airways has invested in full cargo automation by linking Rapid Cargo the new cargo accounting system with the newly acquired cargo operation system E-Champ. With effect from September 2004, KQ Cargo customers will have the capacity to trace and track their shipments on Kenya Airways network by logging onto the newly launched KQ Cargo website.

As part of the customer service care programme, KQ Cargo and KQ Ground Operations are working hand in hand to get all staff involved in cargo handling trained on perishable and live animal handling by September 2004. It is also the objective of both departments to subsequently ensure that all stations are issued with a comprehensive Kenya Airways Cargo handling manual.

Kadhalika, shirika la Kenya Airways lina lengo la kuanzisha mpango wa kuwatia motisha wateja wetu wakubwa humu nchini uitwao (CIPs) lengo ni kuwatia motisha wateja wa mashirika na kampuni mbalimbali kuweza kuwa na sera zenye uuwiano kwa kuwapunguzia bei kwa tiketi wanazonunua kutoka kwetu. Mpango huu wa CIPs unaweza ukatumiwa na wateja hao kuwa njia moja ya kupanga gharama zao za safari na shirika letu, kwa idadi ya abiria wao, kiwango cha malipo ya nauli na daraja la kusafiria (iwapo ni Premier world au daraja la kawaida). Kwa upande wa malipo kwa wateja chini ya mpango huu, kiwango kitalingana na matokeo ya mwaka 2004/5. Mpango wa CIPs unaweza pia ukawasaidia sana wateja wetu wakubwa kununua tiketi zao na kusimamia mipango yao ya safari kupitia wakala waliyemteuwa wenyewe au kupitia kwetu moja kwa moja. Pia ukumbuke kuwa Shirika la Kenya Airways limeanzisha mpango mpya wa kununua tiketi kupitia kwa mitandao ya wateja wetu.

## Biashara ya Shehena

Ili kukabiliana na matakwa yanayoendelea kubadilika katika sekta ya usafiri wa ndege, shirika la Kenya Airways na kampuni zake zote tanzu, limefanya mabadiliko makubwa katika kuimarisha biashara yake na mfumo wake wa uongozi. Shirika la Kenya Airways limenunua na kumiliki kampuni ya kupakia na kupakua shehena ya Kencargo Airlines International kwa kununua hisa kutoka kampuni za Martinair na KLM zilizokuwa zinaimiliki. Kufuatia hatua hii, ilikubaliwa kwamba shughuli zote zilizokuwa zikifanywa na Kencargo Airlines International Limited zitajumuishwa kwenye shirika la Kenya Airways na kampuni hiyo kuitwa Kenya Airways Cargo chini ya Idara ya Biashara ya Kenya Airways.

Kununuliwa kwa ndege ya kwanza aina ya B777 na ndege ya sita aina ya B767 kwenye idadi ya ndege za Kenya Airways kutaiongezea kampuni ya shehena ya Kencargo uwezo wa kukua zaidi kibiashara. Ushirikiano wa pamoja kati ya Idara ya Biashara ya KQ na idara ya shehena tayari umeanza kuzaa matunda kwa ndege zetu aina ya B737 kuboreshwa kwa maana hii aina ya B767 na inasafiri kwenda Lusaka, Lilongwe, Harare na Kinshasa. Wateja wetu wamependezwa sana na jambo hili na hata idadi ya shehena katika njia hizo inatazamiwa kuwa ya kuridhisha. Pia kufikia mwezi Juni mwaka 2004 kampuni ya shehena ya Kenya Airways Cargo itaongeza kiwango cha mizigo kwa kutumia ndege aina ya B767 kwenye njia yenye biashara chungu nzima ya Afrika Magharibi, Accra na Abidjan.

Hata hivyo kuongezeka kwa uwezo wetu kwa kutumia ndege aina ya B777 kutatuwezesha kuingiza na kutoa shehena nyingi kupitia Nairobi na kuzidi kuiongezea Nairobi sifa kama kituo muhimu cha kibiashara katika bara la Afrika. Kwa sasa



## **Future Outlook**

The end of 2003 left us with signs of recovery in the airline industry especially in Africa where conflicts have subsided albeit marginally. This augurs well for the industry. Aero political difficulties will however still continue to hinder our speedy growth within Africa.

We plan to continue with our turnaround initiatives during 2004 and work towards identifying other opportunities in line with the outcome of the 3 year strategy.

We are optimistic that by working as a team we will make a success of your Company in the year 2004.

Titus T. Naikuni  
Chief Executive



kampuni ya shehena ya KQ Cargo inasafiri kati ya Mwanza na Nairobi kwa wiki ikitumia ndege aina ya B737-200QC. Hata hivyo ni nia ya uongozi wa kampuni ya shehena ya KQ Cargo kuongeza uwezekano wa kubeba shehena kwenda Kigali, Bujumbura na Unguja (Zanzibar).

Mbali na kukua kwa biashara yetu, shirika la Kenya Airways limetenga pesa za kutosha katika mitambo ya kisasa ya kushughulikia shehena kwa kuiunganisha na mitambo ya Rapid Cargo-ambayo ni mitambo ya kupigia hesabu za shehena-na mitambo mingine mipya itwayo E-Champ. Kufikia mwezi Septema mwaka huu wa 2004, wateja wa kampuni ya KQ Cargo wataweza kujua jinsi shehena zao za mizigo zilipo kwenye mtandao wa Kenya Airways kwa kutumia mtandao mpya unaoshughulikia shehena.

Katika mipango yetu ya kuimarisha huduma kwa wateja wetu, kampuni ya shehena ya KQ Cargo na ile inayoshughulikia shughuli za kuangalia mizigo kwenye viwanja vya ndege KQ Ground Operations zinafanya kazi pamoja ili kuhakikisha kwamba wafanyakazi wote kwenye kampuni hizo wanapata ujuzi wa kushughulikia shehena-haswa kuhusu bidhaa zenye kuharibika haraka na wanyama walio hai ifikapo mwezi Septemba 2004. Pia ni lengo la idara hizo mbili kupewa vitabu vyenye maelezo kuhusu kampuni ya shehena ya Kenya Airways Cargo inavyofanya kazi ili wajizoeshe.

## **Mtazamo wa Siku Zijazo**

Mwisho wa mwaka 2003 ulituacha na dalili nyingi za kuimarika katika sekta ya usafiri wa anga haswa katika bara la Afrika ambapo mizozo imepungua ingawa ni kwa uchache. Hii haswa ni dalili nzuri katika biashara yetu. Lakini vikwazo vya kibiashara miongoni mwa mashirika ya ndege barani Afrika bado ni tatizo kubwa kwa maendeleo ya sekta hii.

Tunapanga kuendelea na mikakati yetu ya kuimarisha shirika letu katika mwaka 2004 na kufanya kazi kugundua miradi mingine mbalimbali ya kutuletea faida kulingana na mipango yetu ya miaka mitatu tuliyokadiria.

Tuna matumaini makubwa kwamba kufanya kazi pamoja kutaitolea Kenya Airways mafanikio katika mwaka wa 2004.

Titus T. Naikuni  
Afisa Mkuu



[ Accra ]



[ Nairobi ]



[ Dar es Salaam ]

“Corporate governance is the process by which companies are directed, controlled and held to account”.

Kenya Airways Board of Directors is responsible for the governance of the airline and is accountable to the shareholders for ensuring that the company complies with the law and the highest standards of corporate governance and business ethics. The directors attach great importance to the need to conduct the business and operations of the airline and the group with integrity and in accordance with generally accepted corporate practice and endorse the internationally developed principles of good corporate governance.

### **Board of Directors**

The full board meets at least five times a year. The directors are given appropriate and timely information so that they can maintain full and effective control over strategic, financial, operational and compliance issues. Except for direction and guidance on general policy, the board has delegated authority for conduct of day-to-day business to the group managing director and chief executive officer. The board nonetheless

retains responsibility for establishing and maintaining the airline's overall internal control of financial, operational and compliance issues.

Nine out of the eleven members of the board are non-executive including the chairman of the board, and all other than the group managing director, group finance director and two KLM directors are subject to periodic reappointment in accordance with the company's articles of association.



### **Committees of the Board**

The board has three standing committees, which meet regularly under the terms of reference set by the board.

#### **Audit Committee.**

The board has consulted an audit committee, which meets four times a year or as necessary. Its membership comprises Mr. Dinesh Kapila (chairman), Mr. J. K. Kinyua,

Dr Chris Obura, Mr Remco Smit and Mr. Michael Somen. Its responsibilities include review of financial information in particular half year and annual financial statements, compliance with accounting standards, liaison with the external auditors, remuneration of external auditors and maintaining oversight on internal control systems. The external and internal auditors, the group managing director and the group finance director attend all meetings of the committee. Other executives attend as required.

#### **Staff Committee**

There is a staff committee of the board. Its membership comprises Mr. Michael Somen (chairman), Dr Chris Obura, Mr. Titus Naikuni and Mr. Dinesh Kapila. The committee meets quarterly or as required. The committee is responsible for monitoring and appraising the performance of senior management, including the group managing director, review of all human resources policies, determining the remuneration of senior management and making recommendations to the board on the remuneration of non-executive directors. The group managing director and director of human resources attend all the meetings of the committee.

#### **Finance Committee**

There is also a finance committee. It meets three times a year or as required. It comprises Dr. Chris Obura (chairman), Mr. Titus Naikuni, Mr. J. K. Kinyua, Mr. M. Cheserem and Mr. Remco Smit. Among its responsibilities is to receive and consider the company's annual budget, to review the purchasing tender regulations and to consider recommendations for capital expenditure. It also reviews proposals involving opening of new routes, capital developments, listing on other stock exchanges, aircraft purchases, financing, and long term leases. The group finance director attends the meetings of the committee.

#### **Internal Controls**

The group has defined procedures and financial controls to ensure the reporting of complete and accurate accounting information. These cover systems for obtaining authority for major transactions and for ensuring compliance with laws and regulations that have significant financial implications. Procedures are also in place to



ensure that assets are subject to proper physical controls and that the organization remains structured to ensure appropriate segregation of duties. In reviewing the effectiveness of the systems of internal control, the board takes into account the results of all the work carried out to audit and review the activities of the group. A comprehensive management accounting systems is in place providing financial and operational performance measurement indicators. Weekly meetings are held by executive management to monitor performance and to agree on measures for improvement.

### Code of Ethics.

The airline is committed to the highest standards of integrity, behaviour and ethics in dealing with all its stakeholders. A formal code of ethics has been approved by the board and is fully implemented to guide the management, employees and stakeholders on acceptable behaviour in conducting business. All employees of the airline are expected to avoid activities and financial interests that could clash with their responsibilities to the airline.

### Communication with Shareholders.

The company is committed to ensuring that shareholders and the financial markets are provided with full and timely information about its performance. This is usually done through the distribution of the company's annual report, the release of notices in the press of its half yearly and annual results, and quarterly disclosures of operating statistics to the stock markets and capital markets authorities. There is also a minimum of two investors briefings per annum for institutional investors.

In this regard, the company complies with its obligations contained in the stock exchanges listing rules and the capital markets authority acts applicable in both Kenya and Uganda.

### Directors Emoluments and loans.

The aggregate amount emoluments paid to directors for services rendered during the financial year 2003 are disclosed in the note 25(d) to the financial statements. Neither at the end of the financial year, nor at any time during the year did there

exist any arrangement to which the company is a party, whereby directors might acquire benefits by means of the acquisition of the company's shares.

There were no directors loans at any time during the year. Directors interests in the share of the company, the distribution of the company's shareholding and analysis of the ten largest shareholders as at 31st December 2003 were as follows:

### Directors Interests.

Name of Director	Number of Shares
Permanent secretary to the treasury	106,171,561
Mr I E Omolo Okero	2,018
Mr Dinesh Kapila	4,036
Dr Chris Obura	120,180
Mr Michael Lewis Somen	6,966



The share holders Profile as at 31 August, 2004 was as follows:-

	Number of Share holders	Number of Shares Held	% of Issued Share Capital
1 Kenyan Individual Investors	85,504	150,785,909	32.66
2 Kenyan Instructional Investors	3,090	173,089,585	37.50
3 East African Individual Investors	38	181,658	0.04
4 East African Institutional Investors	5	581,748	0.13
5 Foreign Individuals	73	652,257	0.14
6 Foreign Instructional Investors	7	136,324,326	29.53
<b>Total</b>	<b>88,717</b>	<b>461,615,483</b>	<b>100.00</b>

#### Ten largest Share holders

Name	Number of Shares Held	% of Issued Share Capital
1 KLM	120,020,026	26.00
2 Permanent Secretary to the Treasury	106,171,561	23.00
3 Barclays (Kenya) Nominees Ltd. A/C 9057 Non Resident	11,565,000	2.51
4 Mansukhlal Khetshi Shah	9,346,343	2.02
5 Khetshi Dharamshi & Co. Ltd	5,221,944	1.13
6 Rameshchandra K. Shah	5,055,094	1.10
7 Shah Mahendra Kumar Khetshi	4,288,014	0.93
8 Barclays (Kenya ) Nominees Limited. A/C 1853	3,790,331	0.82
9 Ndungu Paul Wanderi	3,723,400	0.81
10 Apollo Insurance Company Limited	3,430,254	0.74
<b>Total</b>	<b>272,611,967</b>	<b>59.06</b>

#### DISTRIBUTION OF SHARE HOLDERS AS AT 31 AUGUST, 2004

Share Holding (Number of Shares)	Number of Share Holders	Number of Shares Held	% Share holding
Less than 500	37,617	18,099,621	3.92
501-5000	48,155	62,082,963	13.45
5,001-10,000	1,365	10,274,997	2.23
10,001-100,000	1,397	37,981,534	8.23
100,001-1,000,000	163	43,458,965	9.41
Above 1,000,000	20	289,717,403	62.76
<b>Total</b>	<b>88,717</b>	<b>461,615,483</b>	<b>100.00</b>





[ Cape Town ]

[ Nairobi ]



[ Kigali ]

## Three year

## Summary of

## Financial

## Highlights

### FINANCIAL HIGHLIGHTS

The Group	2004		2003 (Restated)		2002	
	KShs. Million	US\$ Million	KShs. Million	US\$ Million	KShs. Million	US\$ Million
Turnover						
Passenger	25,772	337.6	23,470	299.1	22,136	281.3
Freight & Mail	2,684	35.2	2,924	37.3	2,315	29.4
Other	1,965	25.7	1,067	13.6	714	9.1
<b>Total</b>	<b>30,421</b>	<b>398.5</b>	<b>27,461</b>	<b>350.0</b>	<b>25,165</b>	<b>319.8</b>
Direct Expenditure	(21,438)	(280.9)	(20,561)	(262.0)	(18,608)	(236.5)
Gross Profit	8,983	117.6	6,900	88.0	6,557	83.3
Overheads	(6,306)	(82.6)	(5,985)	(76.3)	(5,346)	(67.9)
Interest Payables	(561)	(7.3)	(460)	(5.9)	(461)	(5.9)
Interest Receivables	51	0.7	53	0.7	237	3.0
Foreign exchange gain/(loss)	(151)	(2.0)	145	1.8	(21)	(0.3)
Gain on disposals/Other income	122	1.6	107	1.4	82	1.0
Write back of negative goodwill				0.0	11	0.1
Share of results of associate	(63)	(0.8)	(4)	(0.1)		
Profit before tax & minority interest	2,075	27.2	756	9.6	1,059	13.3
Tax Charge	(773)	(10.1)	(339)	(4.3)	(190)	(2.4)
Minority Interest			(17)	(0.2)	(1)	
Profit for the year	1,302	17.1	400	5.1	868	10.9
Dividends	346	4.5	231	2.9	277	3.5

### OPERATING STATISTICS

	2004	2003	2002
Passengers	1,701,170	1,621,429	1,539,872
RPK's (Millions)	4,366	3,994	3,725
ASK's (Millions)	6,221	5,872	5,359
Passenger Load Factor (%)	70.2%	68.0%	69.5%
Cargo Tonnes	32,147	28,497	23,574
Pax yield per RPK (Usc)	7.5	7.3	7.4
Employees			
Airline	2,015	2,311	2,407
Group	2,977	3,418	3,427
Aircraft in Service at Year End			
Airbus 310-300	0	0	1
Boeing 737-200	3	2	2
Boeing 737-300	4	4	4
Boeing 737-700	4	3	1
Boeing 767-300	5	5	5
SAAB 340	2	2	2
Beechcraft-1900C	1	1	1



**EXECUTIVE DIRECTOR**

T. T Naikuni - Managing Director  
F. C Smyth - Group Finance Director

**NON EXECUTIVE DIRECTOR**

I E Omolo Okero - Chairman  
R A Ruijter  
H Essenberg  
M L Somen  
D Kapila  
M Cheserem  
Dr C W Obura  
Dr G Ikiara  
J. K. Kinyua  
R. Smit (alternate R A Ruijter)

**SECRETARY**

Fiona Fox  
for Chunga Associates  
P O Box 41968, 00100  
Nairobi

**REGISTERED OFFICE**

Kenya Airways Headquarters and Base  
Airport North Road, Embakasi, Nairobi  
P O Box 19002, 00501  
Nairobi

**REGISTRARS**

Barclays Advisory and Registrar Services  
Limited  
P O Box 30120, 00100  
Nairobi

**AUDITORS**

Deloitte  
"Kirungii", Ring Road  
Westlands  
P.O. Box 40092, 00100  
Nairobi

**PRINCIPAL BANKERS**

Barclays Bank of Kenya Limited  
Barclays Plaza  
P O Box 30120  
Nairobi

Citibank N A  
Upper Hill Road  
P O Box 30711  
Nairobi

**Directors  
and  
Professional  
Advisors**

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The directors present their report together with the audited group financial statements for the year ended 31 March 2004.

#### PRINCIPAL ACTIVITIES

The principal activities of the group are international, regional and domestic carriage of passengers and cargo by air, the provision of ground handling services to other airlines and the handling of import and export cargo.

The group operates domestic flights and flies to 33 destinations in Africa, Middle East and Asia and Europe. At year-end, the group had nineteen aircraft in operation, either owned or on operating leases. These comprised five Boeing 767 wide body jets, eleven 737 narrow body jets, two SAAB 340B turboprops and one Beachcraft 1900cc turboprop.

#### RESULTS

	KShs'million
Group profit before tax	2,075
Taxation	(773)
<u>Net profit for the year transferred to revenue reserve</u>	<u>1,302</u>

#### DIVIDENDS

The directors recommend the payment of a dividend of Shs 0.75 per share (2003 – Shs 0.50 per share).

#### DIRECTORS

The present board of directors is shown on page 4 and 5. Messrs S P Kyungu and H M Kiplagat resigned as directors on 31 July 2003 and 21 November 2003 respectively and were replaced by Dr G Ikiara and Mr M Cheserem on the same dates.

In accordance with the Company's Articles of Association, Messrs M Somen and D Kapila retire by rotation and, being eligible, offer themselves for re-election at the 2004 Annual General Meeting.

#### AUDITORS

Deloitte were appointed auditors during the year in accordance with section 159(6) of the Companies Act and having expressed their willingness, continue in office in accordance with Section 159 (2) of the Companies Act.

#### BY ORDER OF THE BOARD

Fiona C Fox  
For CHUNGA ASSOCIATES  
Secretary  
Nairobi  
27 May 2004



The Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the group and of the company as at the end of the financial year and of the group's profit or loss for the year. It requires the directors to ensure that the group keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the group. They are also responsible for safeguarding the group's assets.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and the requirements of the Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the group and of the company and of the group's profit. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the directors to indicate that any of the companies in the group will not remain a going concern for at least the next twelve months from the date of this statement.

I E Omolo Okero  
Director  
27 May 2004

T T Naikuni  
Director

## Statement of Directors' Responsibilities

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We have audited the financial statements on pages 37 to 58 for the year ended 31 March 2004 and have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

#### Respective responsibilities of directors and auditors

As described on page 35, the directors are responsible for the preparation of the financial statements. Our responsibility is to express an opinion on those financial statements based on our audit.

#### Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the directors, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

#### Opinion

In our opinion:

- (a) proper books of account have been kept by the group and the group's balance sheet is in agreement therewith;
- (b) the financial statements give a true and fair view of the state of affairs of the company and of the group at 31 March 2004 and of the group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Kenya Companies Act.

**Deloitte.**

Nairobi

27 May 2004



FOR THE YEAR ENDED 31 MARCH 2004

**Consolidated  
Income  
Statement**

	Notes	2004 KShs'million	2003 (Restated) KShs'million
Turnover	2	30,421	27,461
Direct expenditure	4	(21,438)	(20,561)
Gross profit		8,983	6,900
Other income		122	107
Overheads	4	(6,306)	(5,985)
		2,799	1,022
Share of results of associated company		(63)	(4)
Operating profit		2,736	1,018
Finance costs (net)	5	(661)	(262)
Profit before taxation		2,075	756
Taxation	6	(773)	(339)
Profit before minority interest		1,302	417
Minority interest	19	-	(17)
<b>Net profit for the year</b>		<b>1,302</b>	<b>400</b>
Earnings per share - basic	7	KShs 2.82	KShs 0.87
- diluted	7	KShs 2.82	KShs 0.87
Dividends per share	8	KSh 0.75	KSh 0.50



Company

Income

Statement

FOR THE YEAR ENDED 31 MARCH 2004

	Notes	2004 KShs'million	2003 (Restated) KShs'million
Turnover	2	28,888	25,745
Direct expenditure	4	(20,397)	(19,576)
Gross profit		8,491	6,169
Other income		25	106
Overheads	4	(5,704)	(5,448)
Share of results of associated company		2,812 (63)	827 (4)
Operating profit		2,749	823
Finance costs (net)	5	(607)	(243)
Profit before tax		2,142	580
Taxation	6	(693)	(300)
Net profit for the year		1,449	280
Earnings per share - basic	7	KShs 3.14	KShs 0.61
- diluted	7	KShs 3.14	KShs 0.61
Dividends per share	8	KShs 0.75	KShs 0.50



31 MARCH 2004

		2004	2003 (Restated)
	Notes	KShs'million	KShs'million
<b>ASSETS</b>			
<b>Non current assets</b>			
Property, plant and equipment	9	15,267	12,906
Intangible assets	10	111	173
Prepaid lease rentals	11	27	28
Investments in associated companies	12	31	94
Deposits	13	7,472	3,585
Goodwill	14	-	(41)
		22,908	16,745
<b>Current assets</b>			
Inventories	15	859	909
Trade and other receivables	16	3,225	2,896
Amounts due from related companies	25	14	-
Tax recoverable	6	-	279
Cash and cash equivalents	17	2,402	2,547
		6,500	6,631
<b>TOTAL ASSETS</b>		<b>29,408</b>	<b>23,376</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	18	2,308	2,308
Revenue reserve		5,766	4,810
Proposed dividends	8	346	231
<b>Shareholders' funds</b>		<b>8,420</b>	<b>7,349</b>
<b>Minority interest</b>	19	<b>18</b>	<b>30</b>
<b>Non-current liabilities</b>			
Borrowings	20	11,409	7,918
Deferred tax	21	2,093	1,838
		13,502	9,756
<b>Current liabilities</b>			
Sales in advance of carriage		2,277	1,914
Trade and other payables	22	4,326	3,776
Accruals for liabilities and charges	23	513	451
Amounts due to related companies	25	18	-
Tax payable	6	205	-
Borrowings	20	129	100
		7,468	6,241
		29,408	23,376

The financial statements on pages 37 to 58 were approved by the board of directors on 27 May 2004 and were signed on its behalf by:  
 Director: I E Omolo Okero                      Director: T T Naikuni

## Consolidated Balance Sheet



## Balance Sheet

	Notes	2004 KShs'million	2003 (Restated) KShs'million
<b>ASSETS</b>			
<b>Non current assets</b>			
Property, plant and equipment	9	14,067	11,497
Intangible assets	10	106	133
Prepaid lease rentals	11	26	27
Investment in subsidiaries	12	403	746
Investments in associated companies	12	31	94
Deposits	13	7,472	3,585
Goodwill	14	45	57
		22,150	16,139
<b>Current assets</b>			
Inventories	15	810	826
Trade and other receivables	16	2,923	2,496
Amounts due from related companies	25	1,506	1,439
Tax recoverable	6	-	260
Cash and cash equivalents	17	2,142	2,236
		7,381	7,257
<b>TOTAL ASSETS</b>		<b>29,531</b>	<b>23,396</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	18	2,308	2,308
Revenue reserve		5,794	4,691
Proposed dividends	8	346	231
Shareholders' funds		8,448	7,230
<b>Non-current liabilities</b>			
Borrowings	20	11,409	7,918
Deferred tax	21	2,054	1,859
		13,463	9,777
<b>Current liabilities</b>			
Sales in advance of carriage		2,277	1,914
Trade and other payables	22	4,078	3,620
Accruals for liabilities and charges	23	506	406
Due to related company	25	397	349
Tax payable	6	233	-
Borrowings	20	129	100
		7,620	6,389
		29,531	23,396



FOR THE YEAR ENDED 31 MARCH 2004

	Share capital KShs'million	Revenue reserve KShs'million	Proposed dividends KShs'million	Total KShs'million
At 1 April 2002				
As previously reported	2,308	4,859	277	7,444
Prior year adjustments	-	(218)	-	(218)
As restated	2,308	4,641	277	7,226
Dividends paid	-	-	(277)	(277)
Net profit	-	400	-	400
Proposed dividends	-	(231)	231	-
<b>At 31 March 2003</b>	<b>2,308</b>	<b>4,810</b>	<b>231</b>	<b>7,349</b>
At 1 April 2003				
As previously reported	2,308	4,799	231	7,338
Prior year adjustments	-	11	-	11
As restated	2,308	4,810	231	7,349
Net profit	-	1,302	-	1,302
Dividends paid	-	-	(231)	(231)
Proposed dividends	-	(346)	346	-
	<b>2,308</b>	<b>5,766</b>	<b>346</b>	<b>8,420</b>

Prior year adjustments relate to reversals of foreign exchange revaluations on aircraft and provision for aircraft maintenance as a result of changes in accounting policies in respect of treatment of these items in the financial statements.

Consolidated  
Statement  
of Changes in  
Equity



**Company**  
**Statement**  
**of Changes in**  
**Equity**

FOR THE YEAR ENDED 31 MARCH 2004

	Share capital KShs'million	Revenue reserve KShs'million	Proposed dividends KShs'million	Total KShs'million
At 1 April 2002:				
As previously reported	2,308	4,843	277	7,428
Prior year adjustments	-	(201)	-	(201)
As restated	2,308	4,642	277	7,227
Dividends paid	-	-	(277)	(277)
Net profit	-	280	-	280
Proposed dividends	-	(231)	231	-
<b>At 31 March 2003</b>	<b>2,308</b>	<b>4,691</b>	<b>231</b>	<b>7,230</b>
At 1 April 2003				
As previously reported	2,308	4,672	231	7,211
Prior year adjustments	-	19	-	19
As restated	2,308	4,691	231	7,230
Dividends paid	-	-	(231)	(231)
Net profit	-	1,449	-	1,449
Proposed dividends	-	(346)	346	-
	<b>2,308</b>	<b>5,794</b>	<b>346</b>	<b>8,448</b>

Prior year adjustments relate to reversals of foreign exchange revaluation adjustments on aircraft and provisions for aircraft maintenance as a result of changes in accounting policies on treatment of these items in the financial statements.



FOR THE YEAR ENDED 31 MARCH 2004

	Notes	2004 KShs' million	2003 (Restated) KShs' million
<b>OPERATING ACTIVITIES</b>			
Cash generated from operations	24	4,568	3,733
Taxation paid		(34)	(427)
Interest paid		(561)	(460)
Interest received		51	53
<b>Net cash generated from operating activities</b>		<b>4,024</b>	<b>2,899</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(3,593)	(3,876)
Purchase of intangible assets		(7)	(48)
Acquisition of associate		-	(155)
Deposits paid for aircraft purchases		(3,887)	(1,400)
Proceeds of disposal of property, equipment & investments		29	122
<b>Net cash used in investing activities</b>		<b>(7,458)</b>	<b>(5,357)</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds of long term borrowing		4,263	2,618
Repayment of long term borrowings		(772)	(818)
Dividends paid		(231)	(277)
<b>Net cash generated from financing activities</b>		<b>3,260</b>	<b>1,523</b>
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(174)</b>	<b>(935)</b>
<b>CASH AND CASH EQUIVALENTS AT THE START OF THE YEAR</b>		<b>2,447</b>	<b>3,382</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>17</b>	<b>2,273</b>	<b>2,447</b>

**Consolidated  
Cash Flow  
Statement**



## 1 ACCOUNTING POLICIES

The financial statements are prepared in accordance with International Financial Reporting Standards.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain properties and financial instruments.

The principal accounting policies adopted are set out below:

### (a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and enterprises controlled by the company (its subsidiaries) made up to 31 March each year. Control is achieved where the company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities. On acquisition, the assets and liabilities of a subsidiary are measured at their fair value at the date of acquisition. Any excess/(deficiency) of the cost of acquisition over/(below) the fair value of the identifiable net assets acquired is recognised as goodwill or negative goodwill respectively. The interests of the minority shareholders are stated at the minority's proportion of the fair value of the assets and liabilities recognised.

The results of the subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of the subsidiaries to bring the accounting policies used in line with those used by other members of the group.

All significant intercompany transactions and balances between group enterprises are eliminated on consolidation.

### (b) Interests in associated companies

An associate is an enterprise over which the group is in a position to exercise significant influence, but not control, through participation in the financial and operating policy decisions of the investee.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Interests in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the group's share of the net assets of the associate, less any impairment in the value of individual investments. Any excess or deficiency of the cost of acquisition over the group's share of the fair values of the identifiable net assets of the associate at the date of acquisition is recognised as goodwill or negative goodwill. Where a group enterprise transacts business with an associate of the group, unrealised profits and losses are eliminated to the extent of the group's interest in the relevant associate, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred.

### (c) Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition

over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is recognised as an asset and amortised on the straight-line basis over its estimated useful life.

Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries and jointly controlled entities is presented separately in the balance sheet.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

### (d) Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of the subsidiary, associate or jointly controlled entity at the date of the acquisition over the cost of acquisition.

Negative goodwill is released to income based on an analysis of the circumstances from which the balance resulted. To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses crystallise. The remaining negative goodwill is recognised as income on the straight line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised to income immediately. Negative goodwill arising on the acquisition of an associate is deducted from the carrying amount of that associate. Negative goodwill arising on the acquisition of the subsidiaries and jointly controlled entities is presented separately in the balance sheet as a deduction from assets.

### (e) Revenue recognition

Passenger ticket sales and cargo airway bills are recognised as traffic revenue when the air transport has been carried out. The value of the tickets sold and still valid but not used by the balance sheet date is reported as unearned transportation revenue in the sales in advance of carriage account. This item is reduced either when Kenya Airways or another airline completes the transportation or when the passenger requests for a refund.

Commission costs are recognised at the same time as the revenue to which they relate and are charged to cost of sales. Unutilised expired tickets are recognised as revenue when the holder of the ticket is no longer entitled to the refund.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Dividend income from the investments is recognised when the group's rights to receive payment as a shareholder have been established.

### (f) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all risks and rewards of ownership to the group as the lessee. All other leases are classified as operating leases.

**(g) Group as a lessee**

Assets held under finance leases are recognised as assets of the group at their fair value at the date of acquisition or if the lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is carried in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income unless they are directly attributable to qualifying assets in which case they are capitalised in accordance with the group's general policy on borrowing costs.

Rentals payable under operating leases are charged to the income statements on the straight line basis over the term of the lease.

**(h) Foreign currencies**

Transactions in currencies other than the Kenya Shilling are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. Gains and losses arising on translation are included in net profit or loss for the period.

This policy also applies to aircraft which are financed in whole or in part in foreign currency borrowings, which in previous years were regarded together with the related liabilities as a separate group of assets and liabilities and accounted for in foreign currency. The amounts in foreign currency were then translated into Kenya shillings each year at rates ruling on the balance sheet date and the net difference arising from the translation of aircraft costs and related foreign currency loans were taken to reserves. This amounts to a change in accounting policy and the related prior year adjustments have been passed.

In order to hedge its exposure to certain foreign exchange risks, the group enters into forward contracts and options.

On consolidation, the assets and liabilities of the group's overseas operations are translated at the exchange rate prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at closing rate.

**(i) Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, this being assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in net profit or loss in the period in which

they are incurred.

**(j) Retirement benefits costs**

Obligations to defined contribution retirement benefit plans are charged as an expense as they fall due. Payments to the statutory retirement benefit scheme, the NSSF, are dealt with as payments to defined contribution plans where the group's obligations under the scheme are equivalent to those arising in a defined contribution retirement benefit plan.

**(k) Restructuring provisions**

Restructuring provisions mainly comprise employee termination payments and are recognised in the period in which the company becomes legally or constructively committed to payment. Employee termination benefits are recognised only after either an agreement is in place with the appropriate employee representatives specifying the terms of redundancy and numbers of employees affected, or after individual employees have been advised of the specific terms. Costs related to the ongoing activities of the company are not provided for in advance.

**(l) Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of the assets and the liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in business combination) of other assets and liabilities in a transaction that affects neither the tax nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.



Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authorities and the group intends to settle its current tax assets and liabilities on a net basis.

**(m) Property, plant and equipment**

Land and buildings held for use in the production or supply of goods and services, or for the administrative purposes, are stated in the balance sheet at their revalued amounts, this being the fair value on the basis of their existing use at the date of revaluation, less any subsequent accumulated depreciation and any impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of such land and buildings is credited to the properties revaluations reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of decrease previously charged. A decrease in carrying amount arising on the revaluation of such land and buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to income. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the property's revaluation reserve is transferred directly to the revenue reserve.

Depreciation is charged so as to write off the cost or valuation of property, plant and equipment to their residual values over their expected useful lives, using the straight line method at the following rates:

<i>Aircraft</i>	%
Boeing 737-300/700	5.56
SAAB-340B	10.00
 <i>Vehicles and equipment</i>	
Ground service equipment	25.00
Motor vehicles	25.00
Communication assets	12.50
Other assets	20-30

Leasehold improvements and buildings are depreciated over the terms of the related leases. Aircraft spare engines and simulator are depreciated over the lives of the aircraft to which they relate. Aircraft rotables are amortised over the remaining lives of the aircraft on which they are used.

The gain or loss arising on disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised to income.

**(n) Leasehold land**

Payments to acquire leasehold interests in land are treated as prepaid lease rentals and amortised over the term of the lease.

**(o) Internally-generated intangible assets**

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the Group's e-business development is recognised only if all the following conditions are met:

- An asset is created that can be identified
- It is probable that the asset created will generate future economic benefits and
- The development cost of the asset can be measured reliably

Internally-generated intangible assets are amortised on the straight-line basis over their expected useful lives. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

**(p) Impairment**

At each balance sheet date, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the directors estimate the recoverable amount of the cash-generated unit to which the asset belongs.

The recoverable amount represents the greater of the net selling price and the value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.



#### **(q) Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of disposal.

#### **(r) Financial instruments**

Financial assets and financial liabilities are recognised in the group's balance sheet when the group becomes a party to the contractual provisions of the instrument.

##### *Trade receivables*

Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

##### *Investments*

Investments are recognised on a trade-date basis and are initially measured at cost, including transaction costs.

Investments other than held-to-maturity debt securities are classified as either held-for-trading or available-for-sale and are measured at subsequent reporting dates at their fair value. Where securities are held for trading purposes, gains and losses arising from changes in investments, gains and losses arising from changes in fair value are recognised directly to equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is transferred to the net profit or loss for the period.

##### *Financial liabilities and equity*

Financial liability and equity instruments are classified according to the substance of the contractual arrangements entered into. Debt instruments issued by the group which carry a right to convert to equity that is dependant on the outcome of the uncertainties beyond the control of both the group and the holder are classified as liabilities except where the possibility of non conversion is remote.

##### *Bank borrowings*

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issues costs, are recognised to the income statement on the accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

##### *Trade payables*

Trade payables are stated at their nominal value.

##### *Equity instruments*

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

##### *Derivative financial instruments*

The group uses derivative financial instruments to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions. Such derivatives are initially recorded at cost, and are remeasured to fair value at subsequent reporting dates.

For the purposes of hedge accounting, hedges are classified into two categories:

- (a) Fair value hedges which hedge the exposure to changes in fair value of a recognised asset or liability.
- (b) Cash flow hedges, which hedge exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability or forecasted transaction.

In relation to fair value hedges which meet the conditions for hedge accounting, any gains or losses on the hedged item attributable to the hedged risk are adjusted against the carrying amount of the hedged item and recognised against income.

Changes in the fair value of the derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly to equity and the ineffective portion is recognised immediately in the income statement. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or liability, then at the time the asset or liability is recognised, the associated gains or losses on the derivative that had been previously been recognised to equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss. Changes in the fair value of designated fair value hedges and derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised to equity is retained to equity until the forecasted transaction occurs. If a hedge transaction is no longer expected to occur, the net cumulative gain or loss recognised to equity is transferred to net profit or loss for the period.

Derivatives embedded in other financial instruments or non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.



**(s) Provisions**

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations and a reliable estimate can be made of the amount of the obligation.

Previously, accruals for overhaul costs for crafts airframes and engines were made based on directors estimate of the overhand costs. This amounts to change in accounting policy in order to comply with the provisions of the International Financial Reporting Standard no. 37. The prior year comparative balances having been restated to reflect the effect of this change.

**(t) Frequent flyer programmes**

Kenya Airways is currently hosted on KLM Royal Dutch Airline's frequent flyer programme known as Flying Dutchman. Under the Flying Dutchman programme, members earn points by using both airline and non-airline partners. Kenya Airways is required to pay KLM for the points that are redeemed on the programme. All points are expensed when the underlying flights occur. Accumulated points can be used by members to get a variety of awards ranging from free tickets to flight upgrades. For this, Kenya Airways earns revenue as points are redeemed on its services.

**2 TURNOVER**

	GROUP		COMPANY	
	2004 KShs'million	2003 KShs'million	2004 KShs'million	2003 KShs'million
Passengers	25,772	23,470	25,233	22,926
Freight and mail	2,684	2,387	2,684	2,260
Handling	903	915	-	-
Others	1,062	689	971	559
<b>Net book amount</b>	<b>30,421</b>	<b>27,461</b>	<b>28,888</b>	<b>25,745</b>

**3 SEGMENTAL INFORMATION**

**(a) Primary segment information - Geographical segments**

*Turnover*

The analysis of turnover by geographical segments is based on the following criteria:

In the case of passengers, freight and mail, domestic turnover is attributed to those services rendered within Kenya, whilst turnover from inbound and outbound services between Kenya and overseas points is attributed to the geographical point in which the overseas point lies. Other turnover is attributed to Kenya. *Geographical analysis of turnover*

	2004 KShs'Million	2003 KShs'Million
Kenya	3,389	3,007
Africa	12,386	11,357
Middle East	5,340	4,603
Europe	9,306	8,494
	<b>30,421</b>	<b>27,461</b>

*Geographical analysis of operating profit*

	2004 KShs'Million	2003 KShs'Million
Kenya	297	55
Africa	1,410	444
Middle East	289	216
Europe	740	303
	<b>2,736</b>	<b>1,018</b>

*Net assets*

*Geographical analysis of net assets:*

The major revenue-earning assets of the group is the aircraft fleet, the majority of which are registered in Kenya. Since the group's aircraft fleet are employed flexibly across its worldwide route network, there is no suitable basis of allocating such assets and related liabilities to the geographical segments.

**(b) Secondary segment information - Business segments**

*Analysis of turnover per business segments*

	2004 KShs'Million	2003 KShs'Million
Passengers	25,772	23,470
Freight and mail	2,684	2,387
Handling	903	915
Others	1,062	689
	<b>30,421</b>	<b>27,461</b>

*Analysis of operating profit per business segments*

	2004	2003
Passengers	2,555	776
Freight, mail and others	181	242
	<b>2,736</b>	<b>1,018</b>

*Analysis of net assets per business segments*

	2004	2003
Passengers	7,887	6,909
Freight, mail and others	533	440
	<b>8,420</b>	<b>7,349</b>



#### 4 ANALYSIS OF OPERATING EXPENDITURE

##### (a) Direct expenditure

	GROUP		COMPANY	
	2004	2003	2004	2003
	KShs'million	KShs'million	KShs'million	KShs'million
Aircraft fuel and oil	5,187	4,623	5,104	4,513
Hire of aircraft and engines	3,302	3,394	3,129	3,182
Aircraft landing, handling and navigation	3,665	3,606	3,690	3,562
Aircraft maintenance	2,212	2,295	2,072	2,063
Aircraft re-delivery costs	-	2	-	2
Fleet introduction costs	-	266	-	266
Passenger services	2,130	1,816	2,120	1,805
Commission on sales	2,056	1,777	2,145	1,871
Aircraft, passengers and cargo insurance	(256)	72	(251)	93
Depreciation on aircraft, engines and ground service equipment	824	485	775	424
Depreciation on rotables and other equipment	18	26	9	26
Crew route expenses	737	767	733	757
Central reservation system (net) and frequent flyer programme	864	905	857	905
Others	699	527	14	107
	<b>21,438</b>	<b>20,561</b>	<b>20,397</b>	<b>19,576</b>

##### (b) Overheads

	GROUP		COMPANY	
	2004	2003	2004	2003
	KShs'million	KShs'million	KShs'million	KShs'million
<i>Administration</i>				
Employee costs (note 4(c))	3,558	3,140	3,249	2,912
Legal and professional fees	137	117	125	115
Directors remuneration	91	129	63	86
Audit fees	10	7	8	4
General expenses	1,511	1,322	1,314	1,286
	<b>5,307</b>	<b>4,715</b>	<b>4,759</b>	<b>4,403</b>

##### Establishment

General maintenance and supplies	335	379	320	315
Depreciation of buildings and vehicles	358	445	326	319
	<b>693</b>	<b>824</b>	<b>646</b>	<b>634</b>

##### Selling

Advertising and publicity	269	390	262	367
Provision for doubtful debts	37	56	37	44
	<b>306</b>	<b>446</b>	<b>299</b>	<b>411</b>
<b>Total overheads</b>	<b>6,306</b>	<b>5,985</b>	<b>5,704</b>	<b>5,448</b>

##### (c) Employee costs and numbers

###### Numbers

Information on the average number of persons employed in the group during the year is shown below:

	GROUP		COMPANY	
	2004	2003	2004	2003
Kenya	2,729	3,123	1,775	2,038
Overseas	248	295	240	273
	<b>2,977</b>	<b>3,418</b>	<b>2,015</b>	<b>2,311</b>

###### Costs

	GROUP		COMPANY	
	2004	2003	2004	2003
	KShs'million	KShs'million	KShs'million	KShs'million
Wages and salaries	2,381	2,352	2,265	2,174
Contributions to pension	128	124	115	110
Others	1,049	664	869	628
	<b>3,558</b>	<b>3,140</b>	<b>3,249</b>	<b>2,912</b>

#### 5 FINANCE COSTS (NET)

	GROUP		COMPANY	
	2004	2003	2004	2003
	KShs'million	KShs'million	KShs'million	KShs'million
Interest receivable on deposits	51	53	50	84
Foreign currency (loss)/gain	(151)	145	(132)	13 1
Interest payable on long term borrowings	(559)	(419)	(523)	(419)
Overdraft interest	(2)	(41)	(2)	(39)
	<b>(661)</b>	<b>(262)</b>	<b>(607)</b>	<b>(243)</b>



## 6 TAXATION

	GROUP		COMPANY	
	2004 KShs'million	2003 KShs'million	2004 KShs'million	2003 KShs'million
<b>(a) Income statement</b>				
Current tax charge	518	12	498	-
Underprovision in previous years	-	19	-	19
Deferred tax charge (Note 21)	255	308	195	281
<b>Tax charge</b>	<b>773</b>	<b>339</b>	<b>693</b>	<b>300</b>

**(b) Balance sheet**

Balance as at 1 April	(279)	117	(260)	128
Charge for the year	518	31	498	19
Paid during the year	(34)	(427)	(5)	(407)
<b>Tax payable/(recoverable)</b>	<b>205</b>	<b>(279)</b>	<b>233</b>	<b>(260)</b>

**(c) Reconciliation of tax charge to expected tax based on accounting profit**

	GROUP		COMPANY	
	2004 KShs'million	2003 KShs'million	2004 KShs'million	2003 KShs'million
Accounting profit before taxation	2,075	756	2,142	580
Tax at applicable rate of 30%	623	227	643	174
Tax effect of expenses not deductible for tax	157	129	58	130
Losses carried forward and capital allowances	(7)	(17)	(8)	(4)
<b>Current tax charge</b>	<b>773</b>	<b>339</b>	<b>693</b>	<b>300</b>

## 7 EARNINGS PER SHARE

Basic earnings per share is arrived at by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year, as shown below:

	GROUP		COMPANY	
	2004 KShs'million	2003 KShs'million	2004 KShs'million	2003 KShs'million
Net profit attributable to shareholders	1,302	400	1,449	280
Weighted average number of ordinary shares	462	462	462	462
<b>Basic earnings per share</b>	<b>2.82</b>	<b>0.87</b>	<b>3.14</b>	<b>0.61</b>

The basic and diluted earnings per share are the same as there were no potentially dilutive shares outstanding at 31 March 2004 or 31 March 2003.

## 8 DIVIDENDS

	GROUP & COMPANY	
	2004 KShs Million	2003 KShs Million
Final dividends - proposed	346	231
<b>Total dividends</b>	<b>346</b>	<b>231</b>
<b>Dividends per share</b>	<b>Sh 0.75</b>	<b>Sh 0.50</b>

(i) A final dividend of Sh 0.75 per ordinary share (totalling Shs 346 million) has been proposed and the amount has been shown as a separate component of equity as at 31 March 2004. The dividend proposal will be presented for formal approval at the Annual General Meeting.

The movement in the proposed dividends account, which has been shown as a separate component of equity is as analysed below:

	GROUP & COMPANY	
	2004 KShs Million	2003 KShs Million
Balance brought forward	231	277
Final dividends proposed in the year and charged to reserves	346	231
Previous years proposed dividend approved and paid	(231)	(277)
<b>Balance carried forward</b>	<b>346</b>	<b>231</b>

(ii) Dividend per Share is arrived at by dividing the dividends payable by the number of shares in issue at the balance sheet date.



9 PROPERTY, PLANT AND EQUIPMENT  
GROUP

	Freehold land and buildings KShs'million	Aircraft and engines KShs'million	Vehicle and ground service equipment KShs'million	Total KShs'million
<b>Cost or valuation</b>				
At 1 April 2002				
As previously reported	1,037	10,578	4,094	15,709
Reversal of exchange adjustment on revaluation of aircraft	-	(2,265)	-	(2,265)
As restated	1,037	8,313	4,094	13,444
Additions	61	3,399	416	3,876
Disposals	-	(14)	(1)	(15)
<b>At 31 March 2003</b>	<b>1,098</b>	<b>11,698</b>	<b>4,509</b>	<b>17,305</b>
At 1 April 2003	1,098	11,698	4,509	17,305
Additions	304	3,122	167	3,593
Disposals	-	(94)	(46)	(140)
At 31 March 2004	1,402	14,726	4,630	20,758
<b>Depreciation 1 April 2002</b>				
As previously reported	142	2,621	1,684	4,447
Reversal of exchange adjustment on revaluation of aircraft	-	(901)	-	(901)
As restated	142	1,720	1,684	3,546
Charge for the year	25	345	483	853
<b>At 31 March 2003</b>	<b>167</b>	<b>2,065</b>	<b>2,167</b>	<b>4,399</b>
At 1 April 2003	167	2,065	2,167	4,399
Charge for the year	21	764	439	1,224
Eliminated on disposal	-	(90)	(42)	(132)
At 31 March 2004	188	2,739	2,564	5,491
<b>Net book value</b>				
At 31 March 2004	1,214	11,987	2,066	15,267
At 31 March 2003	931	9,633	2,342	12,906

COMPANY

	Freehold land and buildings KShs'million	Aircraft and engines KShs'million	Vehicle and ground service equipment KShs'million	Total KShs'million
<b>Cost or valuation</b>				
At 1 April 2002				
As previously reported	494	9,808	3,168	13,470
Reversal of exchange adjustment on revaluation of aircraft	-	(2,246)	-	(2,246)
As restated	494	7,562	3,168	11,224
Additions	75	3,396	354	3,825
Disposals	-	(14)	(1)	(15)
<b>At 31 March 2003</b>	<b>569</b>	<b>10,944</b>	<b>3,521</b>	<b>15,034</b>
At 1 April 2003	569	10,944	3,521	15,034
Additions	303	3,122	150	3,575
Disposals	-	(90)	(45)	(135)
At 31 March 2004	872	13,976	3,626	18,474
<b>Depreciation 1 April 2002</b>				
As previously reported	94	2,514	1,193	3,801
Reversal of exchange adjustments on revaluation of aircraft	-	(899)	-	(899)
As restated	94	1,615	1,193	2,902
Charge for the year	12	291	332	635
<b>At 31 March 2003</b>	<b>106</b>	<b>1,906</b>	<b>1,525</b>	<b>3,537</b>
At 1 April 2003	106	1,906	1,525	3,537
Charge for the year	8	701	293	1,002
Eliminated on disposal	-	(90)	(42)	(132)
At 31 March 2004	114	2,517	1,776	4,407
<b>Net book value</b>				
At 31 March 2004	758	11,459	1,850	14,067
At 31 March 2003	463	9,038	1,996	11,497

Notes to the  
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10 INTANGIBLE ASSETS – COMPUTER SOFTWARE

	GROUP		COMPANY	
	2004 KShs'million	2003 KShs'million	2004 KShs'million	2003 KShs'million
<b>Cost</b>				
At 1 April	251	203	185	166
Additions during the year	7	48	6	19
Disposals	(33)	-	-	-
<b>At 31 March</b>	<b>225</b>	<b>251</b>	<b>191</b>	<b>185</b>
<b>Amortisation</b>				
At 1 April	78	38	52	18
Amortisation during the year	44	40	33	34
Eliminated on disposal	(8)	-	-	-
<b>At 31 March</b>	<b>114</b>	<b>78</b>	<b>85</b>	<b>52</b>
<b>Net book value</b>	<b>111</b>	<b>173</b>	<b>106</b>	<b>133</b>

These are costs related to the acquisition of computer software and expenditure incurred towards enhancing and extending the benefits and lives of computer software programs beyond their original specifications.

11 PREPAID LEASE RENTALS

	GROUP		COMPANY	
	2004 KShs'million	2003 KShs'million	2004 KShs'million	2003 KShs'million
<b>Cost</b>				
At 1 April	30	30	29	29
Additions during the year	-	-	-	-
<b>At 31 March</b>	<b>30</b>	<b>30</b>	<b>29</b>	<b>29</b>
<b>Amortisation</b>				
At 1 April	2	2	2	2
Amortisation during the year	1	-	1	-
<b>At 31 March</b>	<b>3</b>	<b>2</b>	<b>3</b>	<b>2</b>
<b>Net book value</b>	<b>27</b>	<b>28</b>	<b>26</b>	<b>27</b>

12 INVESTMENTS

(a) Investment in subsidiaries

Details of investment	Country of incorporation	Activity	% of Equity	2004 KShs' million	2003 KShs' million
Kenya Airfreight Handling Limited (1,000 shares of Shs 20 each)	Kenya	Cargo and passenger handling	100%	*	*
Flamingo Airlines Limited (5,000 shares of Shs 20 each)	Kenya	Carriage of passengers and cargo	100%	*	*
KQ Leasing (No 1) Limited (2 shares of GBP 1 each)	United Kingdom	Leasing aircraft	100%	*	*
Kencargo Airlines International Limited (1,000,000 shares of KShs 20 each)	Kenya	Cargo sales agents	100%	19	12
African Cargo Handling Limited (5,753,822 shares of KShs 100 each)	Kenya	Cargo handling	100%	384	734
<b>At 31 March</b>				<b>403</b>	<b>746</b>

\*- Amounts less than Shs one million.

During the year, Kenya Airways increased its shareholding in Kencargo Airlines International Limited from 60% to 100% by acquiring the equity shares previously held by KLM and Martinair Holland NV.



**(b) Investment in associate companies**

	COMPANY	
	2004 KShs Million	2003 KShs Million
(i) African Tours and Hotels Limited (100,398 ordinary shares of Shs 20 each)	2	2
Less: Provision for diminution in value	(2)	(2)
At 31 March	-	-

The holding in African Tours and Hotels Limited represents 20.1% of the issued ordinary share capital of the company. The company was placed under receivership several years back and, therefore, the directors do not expect the investment to be recovered. Consequently, the value of the investment has been fully provided for.

	GROUP & COMPANY	
	2004 KShs Million	2003 KShs Million
(ii) Precision Air Services Limited		
At 1 April	94	-
Acquisition	-	155
Net results of associate	(63)	(4)
Amount recognised as goodwill	-	(57)
At 31 March	31	94

The holding in Precision Air Services Limited represents 49% of the issued ordinary share capital. The associate is a limited liability company incorporated and domiciled in the Republic of Tanzania. Its principal activity is domestic carriage of passengers and cargo by air within Tanzania.

**(c) Other investments**

The company holds 9 (2003 – 9) shares in SITA S.C loyalty programme. These are notional investments with no corresponding value in the financial statements.

**13 DEPOSITS**

	GROUP		COMPANY	
	2004 KShs'million	2003 KShs'million	2004 KShs'million	2003 KShs'million
Deposits for aircraft leases under long-term operating leases	54	54	54	54
Deposits towards acquisition of aircraft	7,418	3,531	7,418	3,531
At 31 March	7,472	3,585	7,472	3,585

Deposits under long-term operating leases relate to expired long-term leases for two A-310 aircraft.

The deposits represent amounts paid to Boeing towards acquisition of two Boeing 737-700 and the three Boeing 777-200 aircraft scheduled for delivery between May 2004 and June 2005.

**14 GOODWILL**

	GROUP		COMPANY	
	2004 KShs'million	2003 KShs'million	2004 KShs'million	2003 KShs'million
<i>Cost</i>				
At 1 April	(79)	(136)	-	-
Additions	(8)	57	57	57
Write back of goodwill	87	-	-	-
At 31 March	-	(79)	57	57
<i>Amortisation</i>				
At 1 April	38	11	-	-
Additions	-	27	12	-
Writeback of amortisation on reversal of goodwill	(38)	-	-	-
At 31 March	-	38	12	-
Netbook value	-	(41)	45	57

Negative goodwill relates to African Cargo Handling Limited while goodwill relates to Precision Air Services. Both goodwills have been written back on consolidation during the year.

**15 INVENTORIES**

	GROUP		COMPANY	
	2004 KShs'million	2003 KShs'million	2004 KShs'million	2003 KShs'million
Aircraft consumables inventories	692	614	675	588
Other inventories	167	295	135	238
	859	909	810	826



## 16 TRADE AND OTHER RECEIVABLES

	GROUP		COMPANY	
	2004	2003	2004	2003
	KShs'million	KShs'million	KShs'million	KShs'million
Trade - Airlines	688	1,050	606	909
Trade - Agents	1,498	1,093	1,290	866
Trade - Others	458	137	452	137
Trade - Government ministries and parastatals	20	11	20	11
Prepayments	454	514	450	506
Staff receivables	14	39	13	37
Other receivables	93	52	93	30
	<u>3,225</u>	<u>2,896</u>	<u>2,923</u>	<u>2,496</u>

## 17 CASH AND CASH EQUIVALENTS

## (a) Balance sheet

	GROUP		COMPANY	
	2004	2003	2004	2003
	KShs'million	KShs'million	KShs'million	KShs'million
Cash on hand and at bank	2,064	1,643	1,804	1,438
Short-term deposits	338	904	338	798
	<u>2,402</u>	<u>2,547</u>	<u>2,142</u>	<u>2,236</u>

Included in cash on hand and at bank is an amount of Shs 197 million (2003- Shs 249 Million) which represents cash balances held with banks in Seychelles which cannot be repatriated due to foreign exchange scarcity and foreign exchange transfer restrictions in that country. The company has reached an agreement with the Seychelles Government to be allowed to utilise the funds to settle expenses incurred in that country.

## (b) Cash flow statement

For the purposes of the cash flow statement, cash and cash equivalents as at 31 March comprise the following:

	GROUP	
	2004	2003
	KShs Million	KShs Million
Cash on hand and at bank and short term deposits	2,402	2,547
Bank overdrafts	(129)	(100)
	<u>2,273</u>	<u>2,447</u>

Short term deposits have an average maturity of 30 to 90 days and effective interest rates of 0.50% to 12% (2003 - 0.5% to 12%) depending on the country where the deposit has been placed.

## 18 SHARE CAPITAL

	GROUP & COMPANY	
	2004	2003
	KShs Million	KShs Million
Authorised:		
1,000,000,000 ordinary shares of Shs 5 each	5,000	5,000
Issued and fully paid:		
461,615,484 ordinary shares of Shs 5 each	<u>2,308</u>	<u>2,308</u>

## 19 MINORITY INTEREST

	GROUP	
	2004	2003
	KShs Million	KShs Million
At 1 January	30	11
Share of profit for the year	-	17
Write off of minority interest on increase in investment in Kencargo Airlines International	(12)	-
Other movements	-	2
At 31 December	<u>18</u>	<u>30</u>

During the year, the company acquired the Kencargo shares previously held by KLM and Martin Air Limited, making it a wholly owned subsidiary.

## 20 BORROWINGS

## (a) At 31 March, short and long term interest bearing loans and borrowings were as follows:

	Average interest rates	Maturities	GROUP & COMPANY	
			2004	2003
			KShs Million	KShs Million
(i) Short term				
Bank overdrafts			129	100
(ii) Long term				
PEFCO Aircraft Loans	6.6%	1997-2011	4,809	5,393
Barclays Bank PLC	4.5%	2003-2014	4,806	2,525
Barclays Predelivery Loans	3.9%	2004-2005	1,794	-
			<u>11,409</u>	<u>7,918</u>



The loans were obtained for the purpose of funding the acquisition of aircraft and spare engines.

The PEFCO and the Barclays Banks PLC loans are repayable over periods of twelve years from the dates of disbursement of each loan. They are secured by charges on the respective aircraft. The loans were advanced to Simba Finance Limited by Private Export Funding Corporation and are guaranteed by Export-Import Bank of the United States of America (Eximbank). The aircraft are registered in the name of Simba Finance Limited, a subsidiary of Eximbank.

During the year, the company secured an additional loan of USD 33,578,148 (Shs – 26 billion) from Barclays Bank PLC to finance the purchase of an aircraft B737-700 registration 5Y-KQG. The loan is payable in successive quarterly principal instalments at a fixed interest rate of 4.5% per annum. The loan facility is guaranteed by the Export-Import Bank of the United States of America (Eximbank). The facility is secured through a charge over the financed aircraft.

**(b) Maturities of amounts included in non-current borrowings are as follows:**

	GROUP & COMPANY	
	2004	2003
	KShs Million	KShs Million
Within one year	2,279	855
After one year	9,130	7,063
	<u>11,409</u>	<u>7,918</u>

**(c) Credit line facilities**

The group has multi-currency credit line facilities with a total value of Shs 3,663 million with various local and international banks for tenures of one year renewable. As at 31 March 2004, the group had utilised guarantees amounting to Shs 985 million, leaving an unutilised balance of Shs 2,678 million.

**21 DEFERRED TAX LIABILITIES**

The net deferred tax liability at the year end is attributable to the following items.

	GROUP		COMPANY	
	2004	2003	2004	2003
	KShs'million	KShs'million	KShs'million	KShs'million
Accelerated capital allowances	2,315	2,084	2,277	2,030
Leave pay provisions	(154)	(150)	(152)	(122)
Tax losses carried forward	(1)	(118)	-	(45)
Stock provisions	(14)	(8)	(14)	-
Unrealised exchange gain	(37)	4	(37)	(8)
Other provisions	(16)	26	(20)	4
	<u>2,093</u>	<u>1,838</u>	<u>2,054</u>	<u>1,859</u>

The movement in the deferred taxation liability is explained by the following:

	GROUP		COMPANY	
	2004	2003	2004	2003
	KShs'million	KShs'million	KShs'million	KShs'million
Balance at beginning of year	1,838	1,530	1,859	1,578
Income statement charge	255	308	195	281
Balance at the end of year	<u>2,093</u>	<u>1,838</u>	<u>2,054</u>	<u>1,859</u>

**22 TRADE AND OTHER PAYABLES**

	GROUP		COMPANY	
	2004	2003	2004	2003
	KShs'million	KShs'million	KShs'million	KShs'million
Trade payables	1,681	1,243	1,648	1,210
Other payables and accruals	2,645	2,533	2,430	2,410
	<u>4,326</u>	<u>3,776</u>	<u>4,078</u>	<u>3,620</u>

**23 ACCRUALS FOR LIABILITIES AND CHARGES**

The prior year balances represent accruals in respect of major maintenance of aircraft airframes and engines and accrual for staff leave entitlement. However, the accruals relating to aircraft maintenance have been reversed in the current financial statements following a change in accounting policy. The movements in the accruals account were as follows:

	GROUP		COMPANY	
	2004	2003	2004	2003
	KShs'million	KShs'million	KShs'million	KShs'million
At 1 April				
As previously reported	-	1,518	-	1,429
Reversal of provision for aircraft maintenance	-	(1,146)	-	(1)
At 1 April as restated	499	372	406	
Leave entitlement for the year	215	127	2 <sup>c</sup>	
Amounts utilised during the year	(201)	(48)		
At 31 March	<u>513</u>	<u>451</u>		

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24 CASH GENERATED FROM OPERATIONS

	GROUP	
	2004 KShs Million	2003 KShs Million
Operating profit	2,736	1,018
Adjustments for:		
Depreciation	1,224	853
Amortisation for intangible assets	44	40
Amortisation of prepaid lease rentals	1	-
Share of results of associated company	63	4
Write back of negative goodwill	(41)	(84)
Net loss /(gain) on disposal of property, equipment and investment	4	(107)
Exchange (gain)/loss	(151)	145
Write of relating to minority interest	(12)	(19)
Other movements	-	(76)
<b>Operating profit before working capital changes</b>	<b>3,868</b>	<b>1,774</b>
Decrease in inventories	50	15
(Increase)/decrease in trade and other receivables	(329)	997
Increase in sales in advance of carriage	363	870
Increase/(decrease) in payables and accruals	612	77
Movement in related party balances	4	-
<b>Cash generated from operations</b>	<b>4,568</b>	<b>3,733</b>

25 RELATED PARTIES

During the year, companies within the group entered into transactions with related parties who are not members of the group. Those transactions are presented below:

**KLM**

KLM holds 26% equity interest in Kenya Airways Limited, and has a 'joint venture arrangement' with Kenya Airways which commenced in November 1997. The agreement allows the two airlines to co-operate in developing schedules and fares and to share generated revenue benefits and costs for the core routes between Nairobi and Amsterdam.

As is common throughout the airline industry, Kenya Airways and KLM Royal Dutch Airlines from time to time carry each other's passengers travelling on the other airline's tickets. The settlement between the two carriers is actioned through IATA clearing house, of which both airlines are members.

Balances outstanding on account of transactions with related parties were as follows as at 31 March:

**(a) Amounts due from related companies**

	GROUP		COMPANY	
	2004 KShs'million	2003 KShs'million	2004 KShs'million	2003 KShs'million
Flamingo Airlines	-	-	1,066	978
Kenya Airfreight Handling Limited	-	-	105	85
Kencargo Airlines International	-	-	328	376
Precision Air	7	-	7	-
KLM Royal Dutch Airlines	3	-	-	-
Martinair Holland NV	4	-	-	-
	<b>14</b>	<b>-</b>	<b>1,506</b>	<b>1,439</b>

**(b) Amounts due to related companies**

	GROUP		COMPANY	
	2004 KShs'million	2003 KShs'million	2004 KShs'million	2003 KShs'million
African Cargo	-	-	-	349
Kencargo Airlines International	-	-	397	-
KLM Royal Dutch Airlines	6	-	-	-
Martinair Holland NV	12	-	-	-
	<b>18</b>	<b>-</b>	<b>397</b>	<b>349</b>

Amounts due from Flamingo Airlines Limited (Flamingo) relate to a loan advanced in the previous year for purchase of aircraft and balances arising from purchases and payments made by KENYA AIRWAYS LIMITED AND SUBSIDIARIES on behalf of Flamingo net of collections by Kenya Airways on behalf of Flamingo.

Amounts due from Kenya Airfreight Handling Limited (KAHL) arise from payments of expenses by Kenya Airways on behalf of KAHL, net of costs apportioned by KAHL for services rendered to Kenya Airways. Amounts due from Kencargo Airlines International Limited (KAIL) represent cargo sales made by KAIL on behalf of KENYA AIRWAYS LIMITED AND SUBSIDIARIES, net of commissions. The amounts due to African Cargo Handling Limited represents funds transferred to the parent company for investment.

**(c) Other related parties**

The group has transactions with related parties, which are conducted in the normal course of airline business. These include the provision of airline and related services.

**(d) Directors remuneration**

	GROUP		COMPANY	
	2004 KShs'million	2003 KShs'million	2004 KShs'million	2003 KShs'million
As executives	85	123	58	81
As non executives	6	6	5	5
	91	129	63	86

**(e) Advances to employees – The Group**

At 31 March 2004, balances outstanding in respect of advances to employees amounted to KShs 22 Million (2003 – KShs 39 Million). These balances attract interest and are recoverable within periods ranging between one month and five years. The group has issued guarantees to a bank to secure facilities to employees amounting to KShs 90 Million (2003 – KShs 90 Million).

**26 CAPITAL EXPENDITURE COMMITMENTS**

As at 31 March 2004 the company had purchase commitments for aircraft fleet and equipment incidental to the ordinary course of business as follows:

	COMPANY	
	2004 KShs Million	2003 KShs Million
Authorised and contracted for	28,835	32,630
Authorised but not contracted for	2,684	-
	31,519	32,630

The commitments authorised and contracted for include the purchase of three Boeing 777-200 aircraft with a value of Shs 28.1 billion, due for delivery in May 2004, May 2005 and June 2005 respectively. One Boeing 777-200 with a value of approximately Shs 9.2 billion was delivered after the year end on 24 May 2004. Other commitments in the group amount to Shs 1.2 billion, and relate to various capital expenditure projects.

**27 OPERATING LEASE COMMITMENTS**

The aggregate payments for which the group has commitments under operating leases at the end of the year fall due as follows:

	COMPANY	
	2004 KShs'Million	2003 KShs'Million
Within one year	3,064	3,064
After one year but not more than five years	6,974	10,038
More than five years	801	801
	10,839	13,903

The fleet leasing commitments include the balance of rental obligations under operating leases in respect of various aircraft. The various lease agreements do not provide for purchase options on expiry of the lease terms. No restrictions have been imposed by the lessors on the company in respect of dividend payouts, borrowings or further leasing.

**28 CONTINGENCIES**

**(a) Contingent liabilities**

- (i) In the ordinary course of business, the group has given guarantees to a bank in favour of third parties amounting to KShs 551 Million (2003 – KShs 500 Million). In the opinion of the directors, no liability is expected to crystallise in respect of the guarantees.

**(b) Litigation**

- (i) A claim for KShs 27,123,583 million in damages for alleged breach of contract relating to a lease for a B707 aircraft was filed against the company in 1981. The high court dismissed the claim in May 2000. The plaintiff's appeal to have the judgement set aside is pending determination by the court.
- (ii) The High court ruled against Kenya Airways in a case, Tobias Ouma & Others Vs Kenya Airways, but rejected the plaintiff's quantification of the damages at KShs 2.6 billion (for loss of service of all 960 ex-staff up to retirement) and instead awarded damages for an unspecified amount. The plaintiff's have since reduced their claim to KShs 880 million. The company has filed an appeal against the ruling but the appeal has not yet been determined. The advice from external lawyers is that there are good prospects of succeeding on appeal. No provision has been made in the financial statements for these amounts as the directors are of the view that the appeal has a high probability of success.



- (iii) A bankruptcy petition filed by the company against Captain Musa Bulhan to recover a debt of KShs 52 million is pending determination by the high court.
- (iv) African Airlines International has filed a claim against the company for an amount of US\$ 2,460,866 (Sh 191 million) allegedly due to them on account of aircraft maintenance and lease services rendered to the company. While the plaintiff's claim has yet to be determined by the high court, the company has been successful in its counter claim of KShs 38 million, owed to the company for services rendered.
- (v) The Industrial Court, in a case filed by Kenya Airlines Pilots Association (KALPA), awarded a total of Shs 50 million to 11 ex-flight engineers allegedly for the company's failing to arrange for them to undertake a final check upon being declared redundant by the Industrial Court in 1993. The company has challenged the award in the High Court on the excess of jurisdiction by the Industrial Court. The appeal has not been determined.
- (vi) 32 employees have filed a dispute in the Industrial Court for wrongful dismissal in connection with allegations of involvement in illicit trafficking of narcotics. They have also taken out proceedings against the company for defamation on the same matter. Both disputes are pending before the industrial court and high court respectively.
- (vii) A former employee of the company has filed a case in the high court for wrongful dismissal claiming damages totalling Shs 65 million which represent alleged loss of employment benefits up to retirement.
- (viii) Eagle Aviation, a domestic Kenyan Airline, was placed under receivership by a bank for defaulting on secured borrowings. At the time, Kenya Airways had sued Eagle Aviation for debts amounting to US\$ 627,763 on account of unpaid aircraft maintenance charges and also due under the franchise agreement for operating a number of domestic routes on behalf of Kenya Airways. The agreement was terminated by Kenya Airways in July 2000 and Flamingo Airlines launched to operate on these routes.
- (ix) In the ordinary course of business, the company and its subsidiaries are defendants or co-defendants in various litigations and claims. Although there can be no absolute assurances, the directors believe, based on information currently available, that the ultimate resolution of these legal proceedings is not likely to have a material effect on the results of its operations, financial position or liquidity. These court cases may take a considerable period to be determined because of the congested court diary.

## 29 FINANCIAL INSTRUMENTS

### (a) Interest rate risk

Current borrowings are at fixed rates averaging 5.9% p.a. Investments made by the group in various international banks generated interest income that covered 20.29% of the cost of borrowing in the year ended 31 March 2004 as compared to 53.48% in the previous financial year.

### (b) Foreign currency risk

Over 90% of the revenue earned by the Kenya Airways is in hard and convertible currencies.

### (c) Credit risk

The board has set limits for investing in specified banks and financial institutions.

## 30 COMPARATIVES

Prior year comparatives have been restated to conform with changes in presentation in the current year, in particular to reflect changes in accounting policy.

## 31 CURRENCY

The financial statements are presented in Kenya Shillings Millions.



**Group Profit and Loss**

For the years ended 31st March

	2004	2003	2002	2001	2000
	KShs mil	KShs mil	KShs mil	KShs mil	KShs mil
Turnover	30,421	27,461	25,165	22,525	17,840
Operating Expenditure	(27,744)	(26,546)	(23,954)	(20,466)	(16,210)
<b>Operating Profit</b>	<b>2,677</b>	<b>915</b>	<b>1,211</b>	<b>2,059</b>	<b>1,630</b>
Interest Payables	(561)	(460)	(461)	(511)	(523)
Interest Receivables	51	53	237	433	287
Foreign exchange gain/(loss)	(151)	145	(21)	(85)	252
Other Income	-	-	-	53	-
Gain on disposals/Other income	122	107	82	1	1,035
Write back of negative goodwill	27	11	-	-	-
Share of results of associate	(63)	(4)	-	-	-
<b>Profit before tax, exceptional items &amp; minority interest</b>	<b>2,075</b>	<b>756</b>	<b>1,059</b>	<b>1,897</b>	<b>2,734</b>
Tax (Charge)/Credit	(773)	(339)	(190)	(687)	69
Exceptional Item	-	-	-	147	119
Profit before minority interest	1,302	417	869	1,357	2,922
Minority Interest	-	(17)	(1)	-	-
Profit for the year	1,302	400	868	1,357	2,922
Dividends	(346)	(231)	(277)	(577)	(577)
Earnings per share after tax and Minority interest (KShs)	2.82	0.87	1.88	2.94	6.33
Dividends per Share (KShs)	0.75	0.50	0.60	1.25	1.25



continued

**Group Balance Sheet**

As at 31st March	2004	2003	2002	2001	2000
	KShs mil	KShs mil	KShs mil	KShs mil	KShs mil
Property, plant and equipment	15,267	12,906	11,262	11,249	10,120
Other non-current Assets	7,641	3,839	2,543	1,327	562
	22,908	16,745	13,805	12,576	10,682
<b>Current assets</b>					
Inventories	859	909	924	798	840
Receivables and Prepayments	3,239	3,175	3,893	4,839	7,062
Cash and cash equivalents	2,402	2,547	3,329	5,054	4,356
	6,500	6,631	8,146	10,691	12,258
<b>TOTAL ASSETS</b>	<b>29,408</b>	<b>23,376</b>	<b>21,951</b>	<b>23,267</b>	<b>22,940</b>

**EQUITY AND LIABILITIES**

**Capital and reserves**

Share capital	2,308	2,308	2,308	2,308	2,308
Revenue reserve	5,766	4,810	4,859	5,271	4,956
Proposed dividends	346	231	277	346	346
<b>Shareholders' funds</b>	<b>8,420</b>	<b>7,349</b>	<b>7,444</b>	<b>7,925</b>	<b>7,610</b>

**Non-current liabilities**

Borrowings	11,409	7,918	6,118	6,637	6,909
Deferred tax	2,093	1,838	1,530	2,027	1,094
Minority Interest	18	30	11	-	-
	13,520	9,786	7,659	8,664	8,003
Sales in advance of carriage	2,277	1,914	1,044	1,621	989
Trade and other payables	4,326	3,776	3,932	3,939	5,793
Other	865	551	1,872	1,118	545
	7,468	6,241	6,848	6,678	7,327
	<b>29,408</b>	<b>23,376</b>	<b>21,951</b>	<b>23,267</b>	<b>22,940</b>

**Group Cash Flow Statement**

As at 31st March	2004	2003	2002	2001	2000
	KShs mil	KShs mil	KShs mil	KShs mil	KShs mil
Net Cash from Operating Activities	4,024	2,899	3,922	3,113	749
Net Cash (used in)/from investing activities	(7,458)	(5,357)	(1,779)	686	(2,449)
Net Cash (used in)/from financing activities	3,260	1,523	(1,601)	(1,382)	2,038
Net (decrease)/increase in cash and cash equivalents	(174)	(935)	542	2,417	338



Proxy

Notes 1, 4

I/ WE

of

Being a \*Member / Members of the above named company, herby appoint:

of

Or failing him

of

As\*my/ our proxy to vote for \*me/ us on \*my/ our behalf at the Annual General meeting of the company to be held on 26th November 2004 and at any adjournment thereof.

(\*Strike out as appropriate)

Signature(s)

Notes 2, 3,4

Signed this

day of

2004

This form is to be used\* in favour of/against the resolution. Unless otherwise instructed, the proxy will vote as he/ she thinks fit.(\*Strike out as appropriate)

Notes

- 1. The address should be that shown in the register of members.
- 2. In the case of a member not being a corporation, this form of proxy must be executed either under its common seal or signed on its behalf by an attorney or officer of the corporation duly authorized.
- 3. A person appointed to act as a proxy need not be a member of the Company.
- 4. In case of joint holders, the signature of any one holder will be sufficient but names of all joint holders should be stated.

Shareholder admission letter

Please complete this letter and note that this admission letter must be produced at the Annual General Meeting by you or your proxy in order to record attendance. Kindly note that only the registered shareholders or their proxy notified to the company at least 24 hours before the meeting will be admitted to the meeting.

Name:

Signature:

Share Account Number:

Annual General Meeting of Kenya Airways Limited to be held at Carnivore Gardens, Nairobi on 26th November 2004 at 11.00a.m.

Sehemu ya 1,4

Mimi / Sisi

wa

Fomu ya

Uwakilishi

Kama mwanachama/ wanachama wa shirika lilotajwa hapo juu, nateuwa/ tunateuwa

wa

Na akikosa yeye

wa

Kama mwakilishi \*wangu/ wetu \* kunipigia/kutupigia kura katika mkutano mkuu wa kila mwaka wa kampuni utakaofanywa mnamo jumatano tarehe 26 Novemba 2004 na wakati wa ahirisho lolote litakalotokea baadaye.

(\*weka inavyostahili)

Sahihi

**Sehemu ya 2, 3, 4**

Naweka sahihi siku hii

ya

2004

Fomu inatumika\* kukubali/kupinga maazimio. Kama haikuelezwa vingine, inachukuliwa kuwa mwakilishi atapiga kura kama anavyopendelea.

(\*weka inavyostahili)

**Maelezo**

1. Sanduku la posta sharti liwe ni kama lilivyo katika rejista ya wanachama
2. Kama mwanachama siyo shirika, fomu ya uwakilishi sharti iwe na mhuri au sahihi ya wakili au ya afisa wa shirika aliyeruhusiwa.
3. Mwakilishai siyo lazima awe mwanachama wa shirika la Kenya Airways.
4. Ikiwa wanachama ni wengi, sahihi ya mmoja wao inatosha lakini majina yote ya wanachama hao sharti yaandikwe.

**Barua ya ualishi ya wenyehisa**

Tafadhali jaza barua hii na fahamu kuwa ni sharti itolewe, ni wewe au mwakilishi wako, katika mkutano mkuu wa kila mwaka ili kutengeneza ratiba ya waliyohudhuria. Tunakujulisha kuwa ni wenyehisa waliyosajiliwa pekee au wawakilishi waliyojulishwa kwa shirika saa 24 kabla ya kuanza mkutano watakaoruhusiwa kuingia mkutanoni.

Jina:

Sahihi:

Nambari ya hisa:

Mkutano mkuu wa kila mwaka wa Kenya Airways Limited utakaofanyika Carnivore Gardens, Nairobi tarehe 26 Novemba 2004 saa tano asubuhi.

